2: MacDonald S-4 (no date) 1946 EK1 Austria EK1

Other developments, however, combined to play into the 665
hands of the extreme elements on both sides. Economic conditions, 669
for instance, contributed towards the growth of revolutionary tendencies, and the desire for desperate remedies, among the working classes; while among the propertied classes, increases in taxation, especially those imposed by the Vienna Socialist municipality, sharpened aristocratic yearnings for a return to pre-war conditions.

The control exercised by foreign Powers over Austrian economic and foreign policy also served to bring the whole system of parliamentary democracy into disrepute. This form 1457
of government was, as has been pointed out, in any case regarded by the extreme groups on both sides as a temporary expedient, and such an attitude grew more and more prevalent when it became apparent that parliamentary democracy was nothing more than a façade behind which Austria's foreign creditors worked their will. Again, economic conditions sharpened the already existing antagonism between the Provinces and Vienna. And, because economic necessity made imperative a modification of the federal structure of Austria, the hostility of the conservative peasants and land-owning classes forced into closer relationship with Vienna found partial expression in movements like the *Heimwehr*. The history of Austria from 1927 till 1934 is the story of force feeding upon force. Both antagonists armed because their rivals did so, although the moderates on both sides were willing to disarm if the other party would do so first.

The turning-point came with the splitting-up of the *Bürgerblock* 665
in the 1930 elections, for with the defection of the 669
Schober group the main body of the party was compelled to 666
turn to extreme right-wing elements for support in its struggle against the Social Democrats. The anti-socialist front tended to split up more and more as time went on, for, after the failure of the attempted *Anschluss* in 1931, the German Nationalists began to drift right away into the Nazi camp, leaving their erstwhile allies with no alternative to the *Heimwehr*. Thus the divisions in Christian Socialist ranks, though they gave temporary encouragement to the Social Democrats, were in reality

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

food production was Austria's most urgent need. When 648 UNRRA started operations the prospects were not at all good. 433 A large part of the seed reserves had been used up as food. Practically no artificial fertilizers were available. There was a lack of farm implements and tractors, all of which had been worked hard during the War. In the chief grain-growing areas of the Soviet zone there was a serious lack of livestock, most of the horses and cattle having been driven west by the Germans before the advancing Russian army. UNRRA spent [457] $18,818,600 on agricultural supplies: about $4·5 million on machinery, $2 million on fertilizers, and more than $10 million on seeds.

After these two main items had been covered, comparatively little money remained over for other requirements. $6,492,400 were spent on industrial rehabilitation, mostly on raw materials, transport, and communications; $1,789,400 on clothing, and $1,706,200 on medical supplies.

UNRRA'S main effort in Austria was spent on short-term 648 needs. The emphasis was on relief rather than rehabilitation, when the country's fundamental need was to build up its food production and purchasing power. Yet, given UNRRA's limited resources, the choice made was inevitable. The non-agricultural population was on the verge of starvation, and the health of the people as a whole was the essential condition of further progress towards recovery. The second stage in Austria's economic revival was a matter of long-term planning and was made possible by Marshall Aid. UNRRA laid the necessary foundations.

By the autumn of 1946 it became clear that UNRRA aid 648 could not last much beyond the end of the year. In November the Federal Chancellor sent a letter to the Allied Council 457 asking for foreign credits to help meet the deficit for 1947, which the Government estimated at $178 million.

The first country to respond to this request was Britain. Towards the end of 1946 the British Government agreed to make available £8,500,000 sterling for relief and reconstruction and a further £1,500,000 as a commercial credit for the

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

648 purchase of raw wool. During the course of 1947 about 457 £4 million worth of surplus British military supplies was also handed over to Austria.

That Britain set an example at this critical juncture is a fact that has not been forgotten by Austrian statesmen. Yet it was clear that the United States alone had the resources to provide assistance on the scale that was required. Generous American help was soon forthcoming. In the first place, a special War Department grant, intended for the American zone, was made available for the whole of Austria. In February 1947 Herbert Hoover visited Vienna to investigate the food situation as President Truman's Special Representative. In a subsequent report he recommended a post-UNRRA relief programme lasting until July 1948, and Congress voted special funds for the purpose. Over $15 million worth of surplus American military supplies was also made available to the Austrians. The help received by Austria from the United States under all these headings during the course of 1947 reached a total of over $100 million, and it was continued during 1948 until the beginning of Marshall Aid.

The Canadian Government provided assistance to the value of $3,400,000, and valuable consignments of food were also received from the Norwegian and Irish Governments.

Austria was thus dependent on supplies direct from the Allies both before and after the period of UNRRA administration, and the greater part of them were provided by the United States and Great Britain. The importance of this contribution to the Austrian economy can hardly be exaggerated, the amount supplied being considerably more than the total UNRRA deliveries. In 1947 only 1 per cent of the rations of Austria's non-agricultural population was covered by commercial imports, although nearly two-thirds of them were imported. Over 60 per cent therefore came from outside sources, and UNRRA itself had ceased operations in Austria by the middle of the year.

434 During the post-UNRRA period the ration situation considerably improved. In the second half of 1947 the basic ration

was raised successively to 1,600 and 1,700 calories a day. In 434
June 1948 it went up to 1,800, and the following September to
2,100. Between December 1947 and December 1948 black- 435
market food prices fell from 64 per cent to 15 per cent of the
figures for January 1946. This meant that it was at last reason-
able to devote a smaller proportion of foreign aid to foodstuffs
and a greater amount to economic rehabilitation. Of the 457 ●
£8,500,000 provided by Britain, less than £1,500,000 was 454
spent on food, about the same amount on agriculture, £2
million on coal, and over £3 million on the most urgent
industrial needs. Of the American Congress aid allocated for
the first half of 1948 just under 60 per cent was devoted to food
and just under 40 per cent to agriculture and coal, which was of
such vital importance to industry.

The administrative responsibilities of the British and 727
Americans in Austria made them highly sensitive to the
country's needs. In spite of the obvious drawbacks of the
occupation, there were certain advantages for Austria during
the first precarious post-War years in the presence of the
Western Allies on her territory. Without them the process of
rebuilding the administration and economy after the collapse
of the Nazi system would almost certainly have been accom-
panied by even more acute material shortages than those that
were actually experienced.

Though the Austrian basic ration did not rise above 1,600 146
calories a day until November 1947, the minimum physio-
logical needs of the normal consumer have been estimated at
2,160 calories. It might have been expected, therefore, that
the results of so long a period of under-nourishment after the
strain of the War would have been far worse than they actually
were. One reason why they were not has already been men-
tioned: a large number of people resorted to the black market.
But there were two other explanations.

During 1947 there were approximately 5 million Austrians 146
in the rationed, as opposed to the self-supplying, category. Of 434
these only about 2 million were normal consumers in receipt
of basic rations. All the rest, either as employees, workers,

In making up their minds with regard to the Nazi legacy, the 185
planners were influenced by all the various considerations that
have just been described: the iron and steel works and the
nitrogen plant at Linz, the aluminium works at Ranshofen
were all in Western Austria and in the American zone;
they were large nationalized industries, and their products
were in great demand under post-War conditions. In addition,
they were modern, they represented a large capital outlay, and
they employed between 10,000 and 15,000 men. Closing them
down, therefore, in deference to any long-term economic
theory, could not seriously be considered. In determining the
lines on which they should be developed, however, the future
balance of the Austrian economy would have to be borne in
mind.

Austria benefited under the European Recovery Programme 457
in three different ways: through 'direct aid', 'indirect aid', and
the use of the 'counterpart fund'. Every year the United States
Government allocated to Austria a sum of money in dollars to
cover the import of essential goods against dollars from the
Western hemisphere. This was known as 'direct' or 'uncon-
ditional aid'. In special cases, dollars allotted in this way could
be used for obtaining goods from countries not taking part in
the recovery programme—for example, coal from Poland.
Secondly, Austria was granted drawing rights to import goods
from other European countries with which she had an un-
favourable balance of trade, on the understanding that the
country concerned would obtain payment in dollars from the
United States. This was known as 'indirect' or 'conditional
aid'. Its object was to stimulate trade between the participating
countries and enable them to resume commercial contacts
with their traditional suppliers and customers. Thirdly, goods 457
brought into Austria with the aid of ERP dollars were paid for
by the recipients in Austrian schillings, which were handed over 652
to the Government and paid in to a special 'counterpart'
account with the National Bank. The schillings that accumu-
lated in this way could be used for two purposes only: pro-
ductive investment for the benefit of the Austrian economy

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

57 and measures for the stabilization of the currency. Proposals were put forward by the Austrian Government, but required
652 the approval of the Economic Co-operation Administration, the highest administrative authority controlling the European Recovery Programme, which had its headquarters in Washington.

457 Under this whole system the greater part of the dollars made available by the United States were used to provide Austria with essential food and raw materials. At the same time a large proportion of the schilling equivalent of the dollars could be devoted to long-term projects that would strengthen the country's economy.

000 In dealing with the recovery programme in detail, it will be convenient to divide up the Austrian economy under eight main headings and treat each of the following separately: (i) agriculture, (ii) forestry and dependent industries, (iii) heavy industries, (iv) other manufactures, (v) fuel and power, (vi) minerals not covered under (iii) and (v), (vii) communications, (viii) the tourist industry. The division is rough and arbitrary, and the headings imply some overlapping, but it is an over-simplification convenient for dealing with a large and complicated subject in a limited space.

241 As has been seen, Austrian agriculture was in a lamentable
185 state when Marshall Aid began. If food production could be increased and Austria became less dependent on imports, a considerable contribution would be made to improving her trade balance. Yet for several reasons agriculture was not a branch of economy that could easily be improved by foreign assistance. The great majority of the farms were small. The peasants were conservative and difficult to influence. Two of their main problems were lack of labour and the low level of agricultural prices, and these were problems that had to be solved by the Austrian Government itself.

The target was set, however, of restoring production to the pre-War level by 1953. Seeds, farm machinery, and feeding-stuffs were to be supplied. Above all, a much greater use of artificial fertilizer was to be encouraged. Before the War

Germany used thirteen times as much per acre as Austria; 241
Holland sixteen times as much. There was great scope, therefore, 185
for increased use. Austria now had her own production plant, and the price of imported fertilizer had scarcely risen half as much as food prices. The programme suggested that by 1953 over four times as much should be used as in 1937, and even then the economic optimum point would nowhere near have been reached.

The significance of Austria's forests is shown by the fact 313
that between the Wars they provided a livelihood, directly or indirectly, for about one-sixth of the population. Lumber exports amounted in value to over 10 per cent of the country's total and, together with the exports of the dependent paper and cellulose industries, just about paid for Austria's most important food imports. After the War the forests were suffering from the excessive felling that had been carried out systematically during the past few years and from the fact that it had taken place in the more accessible areas. This double injury could only be put right by a policy of restraint extending over a number of years: by reducing cutting, and by concentrating on the less accessible, and therefore the less economic areas. In consequence the fundamental cure was, to a great extent, beyond the scope of the recovery programme. But the timber, paper, and 289
cellulose industries had one feature in common: their equipment was very largely out-of-date and inefficient. Judged by modern standards, the methods employed in forestry and the timber industry were still primitive. The sawmills were mostly on a very small scale and could not be compared in efficiency with large up-to-date enterprises in other countries. The consumption of coal in Austrian cellulose factories was about one ton for every ton of cellulose produced, whereas a good Swedish factory used less than a third of the amount. Much of the equipment in the paper-mills was so obsolete that the competitive power of the Austrian paper industry in world markets was being undermined. Here ERP resources could be of great [457] ●
assistance, and funds were allocated for the introduction of modern equipment and modern methods into all three industries.

185 387 markets, ammonium sulphate being more valuable and more suitable as a fertilizer for certain climates than ammonium nitrate.

185 398 The Steyr-Daimler-Puch Company was to be assisted in its programme of concentrating on products of special value to the national economy. The production of motor-cycles, cycles, and ball-bearings was continued, but at its main Steyr works the chief output consisted of diesel trucks, tractors, and omnibuses. An arrangement was made with the Italian Fiat Company by which Fiat passenger cars were to be assembled at Steyr, but no attempt was made to embark on the highly competitive passenger automobile production.

185 457 This comprehensive programme for the heavy industries involved a very large expenditure, and it was not surprising that in 1949 and 1950 nearly half the counterpart funds allotted for industrial purposes were devoted to the iron and steel industries alone.

Compared with the very significant help given under the European Recovery Programme to the heavy industries and the paper industry, Austria's other manufactures, most of which produced consumer goods, were, with the exception of textiles, largely neglected. Before the War about 75 per cent of Austria's industrial workers were employed in concerns in which there were less than 100 employees. Large enterprises played a bigger part in the country's post-War economy, but one of the reasons why the consumer-goods industries were neglected was that they were mostly still on a comparatively small scale. It was therefore difficult to organize assistance for them, and at the same time they lacked effective champions. Another reason was that they had, on the whole, suffered less from war damage. Apart from textiles, the manufactures that came off best were the electrical industries, which had lost a high proportion of their equipment from dismantling and had subsequently been nationalized. The ERP plan for Austria set out to raise the production of heavy industries in four years to 160 per cent of the 1937 level, while the target for consumer-goods industries was only 110 per cent of the 1937 figure. By the autumn of 1951 the small crafts, which employed nearly as many people as industry, had received only 14 million schillings from the counterpart fund, which was only 0·4 per cent of the total. 185 457

There was no branch of the Austrian economy in which the need for capital investment was greater than in fuel and power. 433 Nor was there any branch to which the allocation of available funds would be the subject of less controversy. The Austrian Republic's shortage of coal, which had always been serious, was more acute than ever, owing to the development of the iron and steel industry. And Poland and Czechoslovakia, Austria's traditional suppliers, were now in the Russian orbit, and charged excessive prices for such coal as they were prepared to deliver. At the same time the country had vast potential sources of hydro-electric power, which only required capital for their development. It was most important that the development should take place both to economize consumption of coal and to satisfy the growing demands for electric current of Austrian industry and the Austrian people.

Austria's oil-fields were her main resources in mineral fuel, but, being under Russian control, they did not fall within the scope of the recovery programme. Her coal-mines, which produce 95 per cent lignite, could only satisfy between 25 and [316] 30 per cent of her requirements in 1948 and 1949. As a result of forced production during the War and neglect of new development, the coal was difficult and expensive to work, and the output per miner was only three-quarters of the pre-War level, although the miners' own record had been excellent.

The production of hydro-electric current increased steadily 433 during the War, until in 1944 it had more than doubled. In 377 1945, owing to the serious disorganization that accompanied the end of hostilities, output fell off considerably, but between 1945 and 1948 it rose from 2·51 billion kilowatt-hours to 4·45 billion. The steam-driven power-plants, so important for the maintenance of winter supplies, had suffered severe damage during the War, especially at Linz, and were not back in full production by 1948. Meanwhile the growing importance of

433 377 electricity to the Austrian economy was shown by the fact that domestic consumption per household had increased by 60 per cent between 1938 and 1947. In 1947, also, Austria exported nearly a quarter of its total current production and stood second amongst European countries as an exporter of electric power.

433 – 457 Substantial ERP funds were allocated to the coal-mines for new development and modernization of equipment with the object of increasing productivity. Aid was also given in the reconstruction of the damaged steam-driven electric power-stations, and in the building of new stations in the neighbourhood of the lignite fields. But the bulk of assistance in the sphere of fuel and power was naturally devoted to the development of hydro-electric resources.

165 377 457 Austria's total potential hydro-electric power production is estimated at not less than 30 million kilowatt-hours a year, more than five times the present output. The possibilities were already realized in some measure before the end of the nineteenth century, and development between the Wars was help up mainly owing to lack of domestic and foreign capital on the large scale required. The European Recovery Programme offered a great opportunity, which was not likely to recur, and at the Paris Conference which considered the Marshall offer in the summer of 1947 the Austrian delegation began at once to consider proposals for electric power development. By the following year a general plan had been drawn up that aimed at doubling production in the ten years starting with 1948.

ERP support was limited to four years, but provided for the generous allocation of counterpart funds both for the completion of plants under construction and for the initiation of new works. The programme covered projects in all of the six provinces under the Western Allies, but was confined to them. The great plant planned at Ybbs-Persenbeug on the Danube in Lower Austria, with a potential output of a billion kilowatt-hours a year, had to be left out, because it was in the Russian zone. Major projects in Western Austria included those on the Ill in the Vorarlberg, on the Drau in Carinthia, and on the Enns, the Inn, and the Danube in Upper Austria. The new

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works begun at Braunau on the Inn and at Jochenstein on the Danube were undertaken in collaboration with Western Germany. Most important of all were the power-stations dependent on water stored in great mountain reservoirs, such as those at Achensee in the Tyrol and at Kaprun in Salzburg. This type had the great advantage of being able to reserve its major output for the winter months, when hydro-electric current was in short supply. If they were developed on a sufficiently large scale, it would be possible to reduce the number of steam-driven plants, and so economize coal. 185 377 457

Of all the hydro-electric projects in process of construction, Kaprun was the most significant for the Austrian economy as a whole. Three great reservoirs were to be created at different levels by the construction of a series of dams, the top two reservoirs being connected by a conduit through the mountains nearly twelve kilometres long. When the work is completed, the annual production of current will be 620 million kilowatt-hours, of which 460 million will be produced in winter.

After iron, oil, and coal, the most valuable of Austria's mineral resources at present being utilized is magnesite. The magnesite industry did not suffer seriously from the War, and after a temporary setback, owing to the coal and power shortage in 1946–7, had regained the pre-War level of production by 1948. The greater part of the magnesite produced was exported, some of it to the United States. As a dollar-earner, therefore it was important that the efficiency of the industry should be maintained and its production increased. The bulk of the capital required for modernization was provided by the industry itself, though an allocation was made from counterpart funds as well. 316 457

Austria also has small deposits of copper, lead, zinc, and subsidiary metals. Under normal conditions their development could hardly be justified economically in competition with the world's main sources of supply. But for two reasons a good deal of attention has been paid to them since the War: they provide materials essential for the important electrical industry, and Austria has not had the foreign exchange necessary to

316 buy freely in the cheapest market. The main purpose of the counterpart funds allotted to the development and moderniza-
457 tion of mines and refineries, therefore, has been to save foreign exchange, with the possibility of increasing the exports of finished products as a secondary incentive.

497 The railways have always played a part of special significance in the Austrian Republic's economy. When the Habsburg Empire fell apart, Vienna remained an important centre of communications linking up Western Europe with the Succession States and the Balkans. Between the Wars the international transit services carried out by the Austrian railways between East and West, and North and South, were an important source of national revenue. After the tourist industry they were the main means on which Austria relied to reduce her trade deficit.

After the Second World War the amount of transit traffic through Austria fell off considerably for two main reasons. In the first place, there was a sharp decline in trade and travel between the Iron Curtain countries and the West. Secondly, war damage, lack of coal, wholesale confiscation of rolling-stock by the Russians, and the failure of Hungary and other satellite countries to return trucks sent across the border seriously reduced the efficiency of the services the Austrian railways could offer. Traffic between Switzerland, on the one hand, and Poland and Czechoslovakia, on the other, was diverted from Austria to Germany.

The Austrian railways have come in for a good deal of criticism since the War, and from a first glance at their annual balance-sheets the criticisms appear to be justified. A series of losses culminated in a deficit of approximately one and a half billion schillings in 1951, which meant that every Austrian would have to pay about 200 schillings to make up the deficiency. Yet a superficial judgement in this case is unfair. The railways unquestionably required to be reorganized and rationalized. But, apart from the losses and damage resulting from the War, they were suffering from a number of adverse circumstances that were not always taken into account.

3: Hiscocks G-4, 5 (1946-1949) 1953 [redacted] EK1

The German authorities raised the number of employees to 497
over 100,000 during the War, compared with 57,000 in 1937, and owing to the difficult conditions of the immediate post-War years, this excessive figure was only slowly reduced. By 1950 it was down to about 80,000, but only at the expense of increasing the number of pensioners, who in that year actually exceeded the employees by nearly 4,000. This disproportionate burden in respect of pensions, which accounted for nearly a third of the budget, was due to the political changes both in 1945 and 1918, no less than 15,000 of the pensioners being German-speaking employees who were dismissed when the Habsburg Empire broke up.

The railways also suffered from the competition of road, river, and air transport, all of which were in receipt of large, mostly concealed subsidies in the form of road construction and repairs and the building and maintenance of wharves and aerodromes. The rivalry of road vehicles was particularly severe, the number of lorries and trailers in the autumn of [494]
1949 exceeding the 1937 figures by nearly 300 and 900 per cent respectively.

A third factor that contributed to the heavy deficit was the comparatively small increase in fares that had occurred since before the War. In the summer of 1951 the passenger and freight fares were only 195 per cent and 285 per cent of the 1937 figures, whereas the rise in the general price level amounted to about 700 per cent. As the railways were subsidized directly, and road transport indirectly, in neither case was the principle respected that those who use transport services should pay for them.

In spite of the serious position of the Austrian railways after 497
the War, they remained by far the greatest single economic
enterprise in the country, and their potential contribution to 457
the balance of trade in happier times was considerable. A substantial allocation was therefore made to them from counterpart funds. It was to be used for two main purposes: to repair war damage and to extend electrification. The electrification programme of the between-War period had resulted in 990

497 kilometres of track being electrified and in the annual saving
457 of 300,000 tons of hard coal. The new programme worked out under the stimulus of ERP aid would mean saving a further 700,000 tons of imported coal. Quite apart, therefore, from the possibility of recovering transit traffic in the future, the new developments would lead to a substantial economy in foreign exchange.

727 In 1936–7 about 80 per cent of Austria's trade deficit had
484 been covered by the earnings of the tourist industry. After the War some years were to elapse before the number of foreign visitors approached the pre-War figure. There were several reasons for this. The total war damage suffered by the industry was estimated at 270 million schillings in terms of 1937 prices and at about 1,500 million schillings with the schilling at its 1950 value. Out of 200,000 beds available for tourists in 1937, 80,000 were lost, of which half had been suitable for foreign visitors. Accommodation for a further 30,000 was requisitioned by the occupying Powers in the early post-War years. In addition, serious obstacles were presented by the food shortage and the difficulty of obtaining passes for entering the country and for crossing the zonal boundaries.

484 Efforts were made both by the Austrians and the Western
457 Allies to establish the conditions necessary for the revival of the industry. In October 1946 an Austrian organization was established for this purpose. In 1947 arrangements were made by which food was purchased abroad in order to provide foreign tourists with rations on a basis of 4,600 calories a day without depleting the limited Austrian supplies. The following year the Austrian Government was made responsible for the issue of visas to intending visitors, and the visitors, once in the country, were free to move about between the different zones. Yet, in spite of these measures, progress was slow. In 1947–8 the volume of foreign tourists, measured both in numbers and length of stay, amounted to only about 12 per cent of the 1936–7 figure, and in terms of foreign exchange earnings the comparative value was considerably less.

The ERP planners recognized the vital importance of the

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tourist industry in Austria, though it was not until 1950 that a 484 substantial allocation of counterpart funds was first made. Help was needed for the rebuilding and modernization of 457 hotel accommodation, for the construction of ski-lifts and cable railways in mountain resorts, and for the establishment of publicity offices and information centres abroad. The number of tourists from East and South-east Europe had fallen off considerably, while visitors from Italy, Western Europe, and North America were increasing. This meant that post-War tourists from abroad, on the whole, expected a higher standard of comfort and amenities than had been available in the past.

From an economic standpoint no country had a greater 457 need than Austria for the assistance made available under the European Recovery Programme. In few countries, moreover, was the establishment of a sound economy as important from a political point of view. That these two considerations were appreciated by the Economic Co-operation Administration in Washington is shown by the fact that during the first year of Marshall Aid, Austria received a higher allocation per head than any other country. In the second year its share per head was exceeded by Holland only.

The establishment of the counterpart account made it 457 possible for Austria to embark on a much larger investment programme than had previously been possible, at a time when 454 war damage and the legacy of incomplete heavy industrial plant made such a programme particularly desirable. In 1937 only 6 per cent of the national income had been devoted to investment, while in the ERP years the percentage varied between 17 and 21. In the allocation of funds preference was given to projects which promised to improve Austria's trade balance within a short space of time, but this main principle had to be combined with the need to round off and complete, as far as seemed expedient, the great installations that had been left unfinished at the end of the War.

Direct aid was used at first mainly to import food and the 457 raw materials necessary to enable domestic industry to resume production. As the general situation improved, it was possible 439

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to increase the proportion of raw materials imported and to help production by bringing in machinery and industrial equipment.

The following figures show the total assistance given up to the end of June 1952 under the three categories and some of the main purposes [1] to which it was directed:—

	$1,000
A. Total Authorizations under Direct Aid [2]	632,401
Actual imports under Direct Aid include:—	
Food	248,579
Agriculture	64,047
Including:—	
Corn for Feeding	54,168
Fertilizers	5,642
Industry	148,083
Investments (Machinery)	50,042
Raw Materials	98,041
Including:—	
Wool	5,012
Cotton	41,161
Hides	8,707
B. Total Drawing Rights Granted under Indirect Aid	277,300

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	Millions of Schillings
C. Total Releases from the ERP Counterpart Account [3]	8,036·3
Allocations include:—	
Government Investments	1,451·9
Including:—	
Federal Railways	796·4
Post and Telegraph Services	203·7
Roads and Bridges	174·4
Agriculture and Forestry	52·7
Federal Forests	32·6

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[1] Only details relevant to this chapter have been chosen.

[2] Prepared by the Austrian Institute of Economic Research from statistics of the Central Bureau for ERP Affairs; 31 March 1952.

[3] Figures prepared by the Austrian Institute of Economic Research.

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Allocations include (*contd.*):—	*Millions of Schillings*	
Industrial Investments	4,113·1	457●
Electric Power	1,424·3	454
Coal-mining	226·0	
Other Mining	25·7	
Primary Iron and Steel Industry	827·7	
Non-ferrous Metals Industry	126·2	
Electrical Engineering	85·1	
Chemical Industry	174·4	
Secondary Iron and Metal Industry	215·1	
Textile Industry	214·0	
Woodworking Industry	121·3	
Paper Industry	533·2	
Leather and Leather Goods Industry	6·9	
Special Recovery Programme	1,467·0	
Agriculture	719·7	
Forestry	156·3	
Tourism	256·7	

In May 1948 an ERP Central Office was set up in Vienna and made responsible to the Minister for Foreign Affairs. In December 1949 the economist, Professor Wilhelm Taucher, who had been Minister of Trade before the War, was put in charge of it, and the office then became part of the Federal Chancellery. 647 457

It became clear to all those responsible for administering Marshall Aid in Austria that the fundamental need of the Austrian economy was to improve the efficiency of production, or increase 'productivity' in the specialized sense of the term. Only in this way could Austrian goods compete successfully in world markets. It was therefore decided in April 1950 to establish an Austrian Productivity Centre with the task of doing everything possible both by study and practical measures to increase productivity in all branches of the Austrian economy. Professor Taucher became president of the Centre. 647 433

The productivity of the whole Austrian economy after the War was lamentably low. In 1947 it was estimated to be

cerned to increase the efficiency of all branches of the national 000
economy.

Marshall Aid resulted almost at once in a marked accelera-
tion in the rate of Austrian recovery. Whereas industrial 433
production was only about 43 per cent of the 1937 figure in 457
1946 and only rose to 56 per cent in 1947, in 1948 it jumped to 92 per cent, in 1949 to 123, and in 1950 to 145. After this the rate declined, partly because the return to more normal conditions made any further acceleration impossible and partly because the outbreak of the Korean War, by increasing the price of raw materials, reduced by a third the real value of ERP dollar payments to Austria.

By the end of 1951 the extent of Austria's recovery was impressive, and it could not possibly have been achieved without the steady, well-planned assistance on a vast scale that Marshall Aid implied.

The Austrian gross national product in 1951 had more than 433
doubled since 1946 and was approximately 18 per cent above the pre-War level. Industrial production had risen to 165 per cent of the 1937 figure, while agricultural production, having risen from 56 per cent in 1947 to 90 per cent in 1950, remained at about the same level in 1951. Industrial productivity was more than doubled between 1947 and 1951, and in the winter of 1951–2 stood approximately at the 1937 level.

These figures taken on their own, however, are somewhat 434
misleading. For two reasons the real per capita income and the standard of living of the Austrian people were still slightly short of the pre-War level at the end of 1951, although probably about three times as high as they had been immediately after the War. The population had increased by more than 2 per cent, and there were therefore more mouths to feed than there had been in 1937. In addition, a much higher proportion of the national income was being invested than before. After four years of Marshall Aid the average Austrian was eating little more than a third of the quantity of meat eaten by the average American.

If the different branches of the Austrian economy are 000

496 With the help of counterpart funds the war damage suffered by the Austrian railways had practically been made good by the end of 1949. Steady progress was also made with the programme of electrification. By December 1952 the electrification of the main line between Vienna and the Vorarlberg was complete, and 22 per cent of Austria's whole railway system, or about 1,350 kilometres of track, had been electrified. During 1951 receipts for international transit services carried out by the railways covered 6·8 per cent of the country's total trade deficit (including imports under ERP).[1]

484 The tourist industry recovered rapidly with ERP assistance and the return of more normal conditions. In 1951 Austria was visited by about 1,200,000 foreigners, and the number of nights spent in the country by foreign tourists rose to 5,712,023 from 920,555 in 1948. The increase continued the folllowing year. The industry was stimulated considerably in the summer of 1951, by the decision of the Western Allies, in conjunction with the Austrian Government, to allow the entry of Germans into Austria from the West German Republic without special documentation. As a result, West Germany provided by far the most tourists in 1951, and it was followed by Britain, Italy, Switzerland, and France. Interesting developments about the same time were the increasing number of visitors from the West to Vienna and resorts in the Russian zone and the rise in the number of tourists from Yugoslavia.

44 457 Although the total volume of foreign tourists measured in numbers and length of stay amounted in the tourist year 1951–2 to about 93 per cent of the 1937 figure, the total earnings in foreign exchange were about $22·5 million, compared with $41·1 million in 1937, when the real value of the dollar was about twice as much. The industry thus covered only 19 per cent of the country's total trade deficit compared with 80 per cent in 1936–7. This unfavourable disproportion in receipts was due partly to a change in the type of tourist,

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[1] The deficit in Austria's balance of trade in 1951 was:—

4,392,425,000 schillings (ERP included).
1,649,723,000 schillings (ERP excluded).

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

484 partly to the low Austrian prices, which themselves had con-
457 tributed to the revival of the tourist industry, but even more to
the black-market dealings in foreign exchange, often carried
out by the wealthier tourists, which cheated the country of its
legitimate earnings.

439 The ultimate test of Austrian recovery, however, was the extent to which the country had approached national solvency. The success of Marshall Aid could best be measured by its effect on the revival of Austria's foreign trade.

Since 1950 the level of Austrian exports has been much more satisfactory than during the preceding three years. Between 1947 and 1951 the volume of exports expressed as a percentage of the 1937 figure rose from 26 to 110. During the same period the volume of commercial imports increased from 24 to 87 per cent of the 1937 level. During the second half of 1950 there was for the first time a surplus of exports over commercial imports, although commercial imports did not nearly cover Austria's total needs, which were still in a large measure satisfied by ERP deliveries.

These results were achieved only as a result of strenuous Austrian efforts in the face of great difficulties.

One of the chief obstacles to trade revival was the loss of markets in East Europe. In the past, Austria's East European customers had been happy to take her consumer goods in return for such vital Austrian requirements as food and coal. But since the War they had been unable to provide Austria with the food that she needed, and, as part of Russia's economic plan for the area, had been endeavouring to build up their heavy industries at the cost of renouncing all imports but basic necessities. In 1937 they had taken nearly half of Austrian textile and clothing exports. In 1950 they took only 7 per cent. What they wanted were such things as steel, aluminium, and cellulose, for which Austria had little difficulty in finding markets and which she was only willing to deliver in return for such goods as food and coal.

Thus Austria had to find markets for her finished products elsewhere. It was not easy to do so in Western Europe, where

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

competition was strong. She therefore made a determined 439
effort to develop trading relations with overseas countries, more especially with North and South America, Asia and the Middle East. Commercial treaties were negotiated with the Argentine, Brazil, Uruguay, India, Pakistan, Indonesia, and Turkey, and a trade mission was sent to the Far East. Between 1947 and 1951 Austria's exports to non-European countries just about doubled, and in 1951 amounted to approximately 20 per cent of her total exports.

Yet, in spite of the general improvement, to which Marshall 439
Aid had greatly contributed, Austria's foreign trade position was still far from satisfactory. Every year there was a sub- 457
stantial deficit in the balance of trade. In 1951 it amounted to $201,300,000, and in the first half of 1952 to $121,700,000. The deficits were covered in the early years of Marshall Aid by ERP payments, but, as these payments decreased, this was no longer the case. Furthermore, as has been seen, such invisible exports as the earnings from the tourist industry and railway transit services were very much lower than in pre-War days.

In common with other countries, Austria began to ex- 439
perience difficulties with her export trade in 1951. During the first half of 1952 the volume of her exports dropped by 16 per cent to approximately the level of 1937. This was due partly to the import restrictions imposed by foreign governments, but the main reason was the considerable rise in Austrian costs of production and prices, following the fifth Price-Wage Agreement of July 1951, while prices in other countries remained relatively stable. According to the index drawn up by the Austrian Institute of Economic Research, the prices of Austrian exports rose by 15·8 per cent between June and December 1951, whereas the average rise in export prices of other European countries during the same period, according to United Nations statistics, was only about 7 to 9 per cent. Even more sinister and significant was the fact that the share of Austrian exports in total European exports fell from 2·2 per cent in 1937 to 1·5 per cent in 1950 and 1951.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

Austria was clearly not in a position to pay for her essential 457 needs without foreign help, and it was of vital importance that she should not be subjected to economic strain that would threaten her political stability. The United States Government therefore decided to continue its assistance, though on a reduced scale. Direct Aid amounting to $70 million was promised in two instalments for the financial year 1952–3. The release of funds from the counterpart account was made conditional on the Austrian Government taking adequate measures to balance the budget and check inflation.

At the same time a growing body of expert and informed 185 opinion in Austria was becoming convinced that the situation demanded a new outlook and a new policy. Austrians had acquired the habit of looking abroad for their economic salvation and blaming the Allies for the lack of a State Treaty. But the continuance of the occupation, which was the result of the conflict between Russia and the West, was Austria's heavy share of a burden borne by many countries. Against it could at least be set the sustained moral and material support of three of the occupying Powers. In the circumstances the only healthy attitude was to take energetic steps to strengthen Austria's economy and free it from dependence on foreign help that was being progressively reduced and could not last indefinitely. Such a policy would not have been feasible in the early post-War years, but conditions had so much improved after four years of Marshall Aid that there was now no real alternative for a people with pride in its past and faith in its future.

There were three aims about which there was little controversy: to stabilize the currency and prices, to encourage private saving, and to strengthen the competitive power of Austrian consumer goods in world markets.

There had at first been good reasons for the policy of con- 652 trolled inflation on which the Austrian Government embarked after the War. But the reasons became progressively weaker 185 the longer the policy was pursued, and, as has been seen, the fifth Price–Wage Agreement in 1951 had serious effects on

Center in order to safeguard and coordinate professional interests. The steady increase of economic productiveness is intended to be reached by fostering rationalization of managerial dealing and plants as well as by cutting down the cost of production. 185 433 This too would promote Austrian export trade with an eye to reaching full compensation of export and import figures and thus ultimately to achieve an active balance of payments. 457 439 In the matter of this problem it should, however, expressly be emphasized that such balance of payments--inasmuch as it has been achieved by new equipment and modernizing of Austrian industry initiated during the last years--can be reached only by and by. It was at a rather recent time that investments could be made in Austria (1950). Consequently, an efficient and satisfactory result from such investments, especially from the big investments, may not be expected before 1954 or 1955. Austria should be allowed, therefore, a reasonable interval of recuperation to overcome the handicap of its very precarious situation. Nor should it be overlooked that Austria, as a country which is strongly dependent on a wide range of imports, is extremely sensitive to all fluctuations and developments on the world markets. Each change on those markets of necessity and automatically has repercussions on the price level in the Austrian domestic markets.

It is certainly a matter of the highest importance for the further development of Austria that the chief foreign markets should be opened for the sale of Austrian products, and especially those which are the result of intensive development. The Marshall Plan having become obsolete, it will be possible in this way only to realize the adjustment of the balance of payments. A balance of payments would, without strongly hurting the social structure of the country, open the way towards the gradual abolition of trade barriers and restrictions, to the alleviation of foreign exchange impediments, and, thus, to a progressive integration of Austrian economy into that of the Continent and beyond that to the world at large. The extension of the foreign trade volume and the increase of the invisible export, chiefly the foreign tourist and transit traffic, are a means of realizing foreign exchange reserves required for financing Austrian imports and the maintenance of an adequate satisfactory volume of employment. The persevering energy and intrepidity of both of the 433 responsible big parties of Austria have been leading the way towards the political and economic consolidation

With the enactment of June 25, 1946, the Austrian National
Bank was authorized to control foreign exchange trans- 652
actions. For the time being the rate of exchange had 453
been fixed at the rate decreed by the occupation
powers: 1 dollar = 10 schillings and 1 pound = 40 457
schillings.

457 A gratifying step towards free foreign exchange relations was the release of blocked Austrian assets in the USA in 1946, and later on, the return of the gold reserve of the Austrian National Bank which had been transferred by the German administration. As a first step the United States had returned to the Austrian Federal Government 4,450 kg gold, representing a part of the gold reserve, which in 1938 amounted to 78,000 kg. On November 4, 1947, the Austrian envoy to London signed a protocol. According to its terms Austria was awarded an additional 26,187 kg fine gold by the Reparation Commission in Brussels.

652 With this substantial gold reserve on hand the Austrian Federal Government progressed a step further with its currency policy and enacted the Währungsschutzgesetz (a measure to protect currency), reducing the aggregate currency circulation almost 40 percent. For the intended reform, aimed at reducing currency in circulation as well as funds deposited with bank and credit institutions, the cited federal law of November 19, 1947 (confirmed by the Allied Commission for Austria on December 4, 1947, and enforced on December 10, 1947), was important in the following three points:

(a) Through a reduction of the aggregate currency volume (money in circulation plus deposited funds) a corresponding reduction of prices, and, last but not least, a restriction of black market trades could be accomplished;
(b) The general business moral could be improved; and,
(c) Through a cancellation of the old blocked accounts (in accordance with the first laws covering currency policies in 1945) an elimination of economically untenable positions, and therewith, the first step towards a reconstruction of the credit system in the interest of the entire economy could be undertaken.

458 652 With the enforcement of this law a new trend in financial matters developed. The inflationary influences prevailing until then were curtailed while, financially, the prerequisites necessary for the reconstruction of the Austrian economy were set up. Although the circulating means did not become scarce to the extent

458 originally anticipated, due to the prolonged interval
652 between the publication and the enforcement of the
law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

727 In the meantime the occupation powers,
648 particularly the American and the British elements,
had introduced relief measures ameliorating need and
● 457 want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 25, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNRRA aid which was ending. For this "Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

652 Of particular importance was the establishment
727 of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later
(July 1948) the expenditures of the occupation costs were
[651] met fiscally by an additional tax (occupation cost tax)
to the income and wage tax.

block of "domestic and foreign assets" has not been 652
designed as yet, some means to assure the functioning 453
of the various credit institutions undoubtedly will
be forthcoming.

The banking institutions, besides effecting a settlement of their balance sheets, will also be required to establish additional provisions in order to complete their economic as well as social-political tasks. In this connection the creation of a sufficient liquidity, the securing of an adequate capital structure and, last but not least, provisions for a corresponding amount of reserves to meet pension obligations towards their employees are more important. All these problems require generally and individually special solutions if the institutions are to accomplish their tasks satisfactorily within the national economy.

Thus, for example, with respect to inter- 457●
national economic relations, the banking situation re-
quires a settlement of balance sheets according to inter- 453
national procedures so that the liquidity of the banks 652
and the coverage of accepted deposits be self-secured,
inasmuch as the banks could be called upon to correct
market fluctuations so as to assure continuity of work
within the economic sphere. However, such a policy will
only prove successful if they have disposal over suf-
ficient means. Furthermore, with Marshall Plan assis-
tance terminating in 1952, questions concerning capital
and credit correlations will form the main aspect of
European and international collaboration. Still greater
tasks will develop internationally and foreign trade
acceptance credits will find an ever increasing use.
Such a development requires that the banks, more so than [454]
other enterprises, have available corresponding capital
to serve as a basis for credit extensions. In comparison
with other business enterprises, which have invested
their means in commodities or other goods, the banks, as
a result of war and postwar occurrences, sustained larger
capital losses. Thereupon shifts occurred which created
a situation in which the relationship between means and
deposits were no longer in conformity to internationally
set standards (generally amounting to at least 10 - 15
percent of the balance sheet total). The procurement of
these necessary means will be of great importance.
Since prevailing conditions in the capital market do not
permit the procurement of capital in the customary manner,
the capital needed will have to be accumulated out of pro-
fits of the banking institutions, provided certain tax
exemption measures are enacted.

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453 Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

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B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

UNRRA Shipments (ended July, 1947)	447 Million Schillings	648 457
USA Congressional Aid (second half, 1947)	501 Million Schillings	
USA War Department	338 Million Schillings	
USA War Surplus Assets	151 Million Schillings	
USA Surplus Credit	60 Million Schillings	
British 10,000,000 Pound-Sterling Credit	219 Million Schillings	
British War Surplus Assets	160 Million Schillings	
Private Charitable Organizations	130 Million Schillings	
Total	2,006 Million Schillings	

For Europe the turning point came during the summer months of 1947. On June 5, 1947, the American Secretary of State, Marshall, in a speech at Harvard University, sketched a program for the economic reconstruction of the European area following the ideas recommended by the late President Roosevelt in a message to Congress promoting the well-known four principles of freedom. This program was to replace the various individual assistance actions of the early postwar years by an economic reconstruction program based on the idea of self-help and intercontinental cooperation. Accepting an invitation of the foreign ministers of Great Britain and France, 16 representatives from 22 invited nations, including Austria, attended the European Conference in Paris from July 12 to September 23, 1947. There the principles of European cooperation (ERP) were promulgated.

The initiation of ERP, originally set for April 1, 1948, had to be postponed for technical reasons to July 1, 1948. Meanwhile, the precarious Austrian situation required the granting of interim assistance.

On January 2, 1948, the United States of America and the Republic of Austria signed an "interim agreement" which provided the extension of funds and raw materials amounting to $57,000,000. Shipments from

648 the USA included: 45,000 tons of grain, 3,000 tons
457 of edible fats, 5,000 tons of sugar, and 200,000 tons
of other essentials. To cover the period up to July
1, 1948, Austria received an additional amount of
$70,000,000 in interim aid.

b) The inception of the Marshall Plan and its terms.

The second Paris Conference of the European nations participating in the reconstruction program (ERP) took place on March 15 and 16, 1948, while a third conference followed on April 16, 1948. At the latter the organization for cooperation was initiated and implemented by the signing of a covenant and additional protocols. The aim of these agreements was the achievement of a sound, stable and independent economy by 1952. Article IV of the Paris covenant for cooperation on April 16, 1948, also contains provisions for mutual endeavors to create principles of payment which were to lead to a free (multilateral) clearing system. These endeavors led to the signing of a limited compensation and payment agreement (October 16, 1948) effective October 1, 1948 to June 30, 1948. It was later extended to June 30, 1950.

The ERP program for the 16 nations which signed the Paris covenant of April 16, 1948 (plus the German Tri-Zone represented by the military commanders and the Free Territory of Trieste), began on July 1, 1948, in accordance with the stipulations of the "Foreign Aid Act of 1948" adopted on April 3, 1948 (Public Law 472, 80th Congress, 2nd session, chapter 169, p. 2002). The assistance itself depended upon bilateral economic agreements between the USA and the participating countries (for Austria by the agreement of July 2, 1948).

[652] With the signing of this covenant the Austrian government (like all participating countries) obligated itself to increase, within the scope of Austria's possibilities, her industrial and agricultural production and to submit proposals relative to the implementation of projects to be executed under the provided assistance program. The government was further required to enact measures stabilizing the currency and balancing the budget and to cooperate with the participating countries in achieving an elimination of barriers to interstate trade.

During the first year of the Marshall Plan 457 assistance (1948-1949), out of a total of $4,875,000,000 allotted to participating countries for "Unconditional Aid," Austria received an amount of $217,000,000, and from "Drawing Rights" (conditional aid) $66,600,000 (out of $810,400,000). Austria had to make available to Greece, Italy and Sweden drawing rights amounting to $3,200,000.

To get an idea of the economic importance of Marshall Plan shipments for the Austrian economy, it seems most suitable to give the analysis of a one-year economic program. For this purpose the second Marshall Plan year has been chosen. The Austrian program for the year 1949-1950 was calculated to involve $252,200,000, of which $166,400,000 were provided under the direct aid and $85,800,000 represented drawing rights. The total imports for the period July 1, 1949-June 30, 1950 were estimated to amount to about $556,740,000 and were financed as follows:

		Million Dollars	
Marshall Plan--direct aid		151.95	27.3 per cent
Marshall Plan--drawing rights		82.20	15.3 per cent
Trade		295.70	53.1 per cent
Non-ERP dollars		23.89	4.3 per cent
Expenditures for freights and other "invisibles" were calculated at-		59.56	
They were financed as follows:			
Marshall Plan--direct aid	$14.45		
Marshall Plan--drawing rights	.60		
Trade	38.90		
Non-ERP dollars	5.61		
The Austrian payments balance for the second Marshall Plan year therefore totaled		613.30	

which were covered by means of:

Direct aid	166.40	27.0 per cent
Drawing rights	82.80	13.9 per cent
Trade	334.60	54.3 per cent
Non-ERP funds	29.50	4.8 per cent

Therefore, of the total imports during the economic year 439
in question, 40.9 per cent were covered by ERP funds. 457

457 These means were expended as follows: after deductions for foodstuffs (direct aid: $68,000,000, drawing rights: $2,710,000), for agriculture ($14,390,000, drawing rights $7,300,000) and for tobacco (direct aid: $2,500,000), there remained for the industrial economy funds amounting to $66,260,000 out of the direct aid and $75,190,000 out of the indirect aid (total of $141,450,000).

457 648 Of this remaining total of $141,450,000, $82,300,000 covered coal imports, of which $43,400,000 (or more than 50 per cent) were financed under drawing rights; $2,250,000 were taken from direct aid for a corner transaction to get coal from Poland. Imports of hides amounted to $11,300,000 ($4,000,000 were financed by direct aid allotments and $1,400,000 under drawing rights). Of these imports almost 50 per cent were financed with ERP funds.

For imports of raw materials and semi-finished goods (excluding coal), approximately $182,000,000 were set aside in the payment balance 1949-1950. ERP grants amounting to $55,000,000 covered 30 per cent of these imports. Including imports of coal, the percentage amounted to 38 per cent.

Of great importance were the imports in the investment sector. During the first year of the Marshall Plan only $12,000,000 (or less than 4 per cent of the allotted amount of $283,600,000) was provided for investment purposes. (During this period the need for foodstuffs was still great and represented 44 per cent of the total allotment.) The second Marshall Plan year, however, brought about an increase to more than 16 per cent, i.e., to $40,450,000 (direct aid: $31,600,000; drawing rights: $8,850,000) despite a reduction of 11 per cent in the total allotment ($252,200,000).

2. The Financing of the Reconstruction.

a) Counterparts and their use.

648 652 457 According to Article IV of the bilateral agreement between the United States and Austria of July 2, 1948, covering economic cooperation, schilling proceeds derived from domestic sale of imported Marshall Plan goods must be deposited with the Austrian National Bank in a special account (in favor of the Federal Ministry of Finance). The government has utilization of these funds only with the approval of the ECA in Washington. In accordance with the Foreign Aid Act, No. 472 of the

80th Congress, such counterpart funds, however, can be released only for purposes of currency stabilizations or promotion of investments.

The development of the special counterpart accounts, as a result of payments for ERP shipments, up to December 31, 1950, is tabulated as follows. [Not to be confused with special accounts established prior to the Marshall Plan assistance (Congressional Aid, British credit, etc.) which are classified as non-ECA accounts.]

	Million Schillings
I. To special account as per ECA instructions (counterpart value of ECA shipments).	8,140.8
II. Processing results (proceeds account of the Federal Ministry of Finance deposited with the Austrian National Bank).	
a) Proceeds of sales	6,035.1
b) Price-gap and time-lag, covered by treasury bonds of the government	2,105.7
Total of II	8,140.8
III. Charged to proceeds account (II)	
a) Released for monetary purposes	775.0
b) Released for the financing of the Austrian investment program	3,536.5
c) Other releases	49.9
d) 5 per cent reserved for U. S.	368.2
Total of III	4,729.6
IV. Balance of the proceeds account (I minus III--including price-gap and time-lag).	3,411.2

Not included in these figures are the U. S. assistance actions for the period July 1, 1947-December 31, 1947 as follows:

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		Million Schillings
I. Proceeds of sales		449.1
II. Charged to special account:		
a) Released for monetary purposes	75.0	
b) Released for the financing of the Austrian investment program	363.1	
c) Other releases	3.6	441.7
III. Balance of the special account (ECA account)		7.4

In carrying out the program the Austrian Federal Government, upon request of the ECA Mission, is required to deposit to a special account (Post I) the counter value of ECA dollar expenditures at the prevailing rate of exchange. This deposit is made by the Austrian National Bank for the account of the Austrian Federal Government. The Austrian National Bank, which credits the deposit to a special account of the Federal Ministry of Finance (Post II), later receives reimbursement upon receipt of sales proceeds. However, since some of the imported commodities are sold at cheaper price levels than prevailing domestic market prices, the amounts thus deposited to the proceeds account (Post II) are insufficient to reimburse the Austrian National Bank for its advance to the Austrian Federal Government (Post I). Furthermore, since the imports and the sales of procured commodities never occur simultaneously (time-lag), the deposited sales-proceeds usually amount to less than the counter values. The difference (Post II b) between the original Government deposits (Post I) and the sales proceeds (Post II) therefore represents partly a subsidy (price gap or ERP subsidy) and partly an advance (time-lag deposits) against later proceeds deposits. Although the advances are being repaid currently and no advanced amounts will be outstanding shortly after termination of the ERP, this will not be the case with regard to price-gap amounts. The latter represent Government subsidies advanced by the Austrian National Bank (covered by Federal Bonds). The financing of the Austrian National Bank cannot result in inflationary tendencies since the amounts, blocked in the counterpart account, are not considered in release provisions. Therefore, not being released, they do not return to circulation. At the termination of ERP it will become necessary to stipulate provisions covering the

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remaining government deposits of the special account (Post I).

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The following periodic schedule shows the amounts released and the purpose of expenditure:

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1948: Total releases amounted to 2.088 million schillings of which 396.7 million were released from ECA counterpart accounts. They were released to cover expenditures for investments of the extraordinary budget, industrial investments and housing constructions.

1949: Total releases amounted to 1.575 million schillings of which 1.425 million schillings were released from ECA counterpart accounts. They were expended to cover investments within the scope of the extraordinary budget and industrial investments.

1950: During the four quarters of 1950 releases amounted to 2,881.5 million schillings. The following amounts were released from ECA counterpart accounts:

	Million Schillings
1st Quarter 1950	none
2nd " "	951.5
3rd " "	1,230.0
4th " "	700.0
Total	2,881.5

This amount of 2,881.5 million schillings was expended as follows:

	Million Schillings
Federal investment program (extraordinary budget)	377.0
Industrial investments	1,681.0
Special reconstruction program	660.0
Others	97.5
Not yet specified	66.0
Total	2,881.5

Tabulated according to expenditures, the amounts withdrawn during 1950 from ECA counterpart accounts were expended as follows.

652 [434] totaled only 454 million schillings. In accordance with the original "Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid too sudden changes in the price and wage structures.

●[457] To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

652 [448] 185 With the progressing consolidation, resulting from ERP procedures, the Austrian Federal Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

1) Counteract inflationary tendencies according to timely needs;
2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;
3) Bring prices gradually in line with world market levels;
4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

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wage level. This goal will be achieved:

a) by means of an appropriate currency policy, primarily through a gradual unification of the exchange rate system (surrender of multiple exchange rates and adaptation of the schilling rate to the international purchasing power parity); 652 185

b) restriction of compensation trades;

c) adjustment of the price structure and adaptation of wages according to agreements of political and economical interest;

d) increase of labor productivity (i.e., the produced quantity of goods per capita or working hour) to achieve a suitable relation between the costs of raw materials, accessories, plants, machineries and manpower, and the proceeds of goods and services.

Following the development of domestic price and wage dynamics the exchange rate of 10 schillings to 1 United States dollar, established by the Allies at the end of the war, became untenable in the early part of 1948. Despite the exceptional exchange rate to gain a larger share of export trade, compensation deals, made mostly at higher rates of exchange, were tolerated. Later, exporters were permitted to sell part of their foreign exchange holdings, which they were allowed for imports of raw materials, at an officially fixed premium. A private super premium was usually added, depending on import productiveness. 457 652

This resulted in a complicated system of exchange rates which varied from deal to deal. In addition, goods imported under ERP terms, insofar as they were not reckoned at domestic price levels, were sold at officially fixed prices. Thus the difference in the exchange relation between commercially imported goods and ERP imported goods became an import subsidy financed with ERP means, favoring partly the consumer and partly the dealer or the processing manufacturer. It delayed the shifting of needed imports to commercial channels and furnished in certain sectors the impression of an export ability which, however, was solely the result of the cheaper purchase price commodities imported through the ERP.

It was clear that this system of differentiating exchange rates had to be replaced by a "uniform" rate of exchange. The international devaluation wave sweeping Europe during September 1949, however, 457 652 created a new situation. As a result of this devaluation process, the Federal Government, in November 1949, decreed a reorganization of the foreign exchange market. This was intended to be the first step towards the establishment of a uniform exchange rate system. The official rate of exchange, henceforth called the basic rate, was increased from 10 to 14.40 schillings per 1 U. S. dollar (in accordance with the devaluation of the English Pound Sterling). At the same time a variable premium rate of exchange, presently fixed at 26 schillings to 1 U. S. dollar, was established. Exporters were required to give up 40 per cent of their foreign exchange proceeds at the basic rate. The remainder they could retain for payment of their imports within a period of 60 days or could offer to the Austrian National Bank at the premium rate. Goods to be imported were classified into three groups. Those listed in schedule A were imported at the basic rate of exchange, those listed in schedule B at a mixed rate (21.36) and those appearing in schedule C at the premium rate. Goods imported within the scope of the ERP, commodities to be disposed at prevailing cheaper price levels, were grouped with the mixed rate. Service charges and capital transactions were dealt in at the premium rate.

457 435 465 652 There remained, however, a conspicuous discrepancy in the import exchange rates which introduced disturbances into the cost-price structure of the economy, and these in turn influenced living costs and wages.

[648] Upon recommendation of the International Monetary Fund, a unification of the exchange rates had been considered at the time the multiple exchange rate system was promulgated, i.e., during November 1949. At the [654] same time, and in order to ease budgetary strains, the system of subsidizing essential commodities like food, coal and agricultural necessities (which up to now had been sold at cheaper levels because of the ERP imports or imports financed under the basic rate of exchange) had to be substantially curtailed. Since any increase in the prices of grains and grain products was likely to impair living costs and wages, difficult situations arose. As a result of the changed price and wage relations, certain price and wage adjustments as well as a partial reduction of subsidies (covering sugar, coal and agricultural products) had already been promulgated in 1947, 1948 and 1949. After due consideration between political representatives and economic interests, a fourth price and wage agreement was enacted on September 27, 1950.

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Consequently, the Austrian Federal Government in collaboration with the Austrian National Bank decreed, effective October 5, 1950, a uniform rate of exchange for the traffic in goods (with the exception of some food items). This rate was identical to the mixed exchange rate of 21.36 schillings to 1 U. S. dollar. The basic rate of exchange was discontinued. For tourist traffic, traffic in capital and for certain kinds of services, the premium rate of exchange (26 schillings to 1 U. S. dollar) remained in force. Simultaneously, compensation deals in goods were prohibited, excepting a few to avoid losses of foreign trade interests.

In addition the Austrian National Bank effected, according to newly published bid-rates, a revaluation of its foreign exchange holdings and increased the price of gold to 22,834. schillings per 1 kg fine. Thus, the Nationalbank's holdings of foreign exchange were brought in line with the uniform rate of exchange in force for the traffic in goods while its gold holdings were revaluated as mentioned before. (The revaluation of the gold and foreign exchange holdings brought about a surplus value. Since, in accordance with the Notenbanküberleitungsgesetz, the weekly statement of the Austrian Nationalbank has to contain only gold and foreign exchange holdings necessary as cover, the excess holdings thus derived have been eliminated together with other heretofore not published assets. Meanwhile, until a decision about their employment is found, these excess holdings are accounted transitorily.)

A further development, this time upon an international platform, occurred with the signing of the agreement establishing the European Payments Union (EPU) on September 19, 1950, at Paris, within the scope of which Austria received from the ECA an amount of 80 million dollars to cover her trade deficit with other EPU member countries for the period July 1, 1950, to June 30, 1951. [648]

Although the preceding years had resulted in remarkable economic reconstruction, the Austrian authorities, nevertheless, were aware of the fact that a step-up of economic productivity was necessary to come as close as possible to the mark set by the ECA for 1952. In estimating Austria's endeavors one must take into account her heavy losses of national wealth, so that the effect of ERP assistance became visible only in 1950. This makes the balancing of her payments balance within the limits of the ERP program rather doubtful. 457, 433

457 [511] 433 There is no doubt, however, that the desired higher standard of living requires greater accomplishments from the economy if, as is the case today not only in Austria but also in other ERP member countries, edible foodstuffs, raw materials and machinery are not to be continuously supplied by foreign aid. In this connection it is useful to recapitulate the value of such aid. Thus the total value of direct and indirect aid, congressional aid, interim aid, surplus goods, gifts, etc., amounted in 1948 and 1949 to approximately 300 million dollars yearly, an amount sufficient to cover the deficit of the payments balance up to now. In other words, the Austrian economy received more than 6 billion schillings which increased the gross national product available for consumption and industrial investments by 20 per cent. Foreign aid in 1950 amounted to 200 million dollars or 4 billion schillings and in 1951 to 100 million dollars.

433 As a matter of fact, production and productivity increased rapidly during the last years. However, this rapid increase was due to the extraordinarily low starting point. It is true that present industrial production exceeds the prewar level by 40 per cent, but it is a result of using about 50 per cent more than in 1937. At the end of 1950 the individual output index of both industrial as well as agricultural labor amounted to 90. Today, the task of increasing productivity rapidly is far more difficult since, in addition to diminishing foreign assistance, any reopening of idle capacities and procurement of additional raw materials and coal is almost impossible. It follows that every percentage of productivity to be gained requires greater efforts than before.

433 439 454 In connection with the above, there arises in Austria a specific coordination problem with regard to output gains already achieved in other nations, the question of cost computation. (Compared with Austria's present production ability the American, Swiss, Swedish, and English national economies, during 1949, furnished respectively 7, 4, 3 1/2, and 2 1/2 times as much goods and services per capita. This fact is intensified by the progressive industrialization of the previously agricultural countries of southeastern Europe.) If Austrian manufactured goods (as producers of foreign exchange, and therewith as guarantors of sufficient raw materials, employment and living standard) are to be competitive on international markets, the question of decreasing production costs per unit becomes imperative. Such a decrease, excluding developments beyond the control of

652 To this should be added that the surplus in expenditures for investments pertains exclusively to the extension of agriculture and forestry, tourist traffic facilities, the building of apartments for workers and the reconstruction of war-damaged dwellings. The expenditures for investment in institutions of state administration were lower by 2 million schillings than foreseen in the budget estimate for 1950. Of the 1,076 million schillings spent for the institutions of state administration only 377 million schillings were covered by ECA funds; the remaining 699 million schillings were covered by the surplus of current transactions (471 million schillings), other extraordinary revenues (80 million schillings) and from cash-on-hand. The consequence of this important diversion of state funds to cover investments, caused mainly by delays in alloting 70 million schillings from the ECA funds in the fourth quarter of 1950, was the creation of a long severe strain on the State's funds.

[654] The investments of 550 million schillings for the extension of agriculture and forestry and for tourist traffic, as well as for workers' dwellings and the reconstruction of war-damaged apartment houses, have been covered in full from ECA funds. For these investments there were only proposals in the 1950 estimated budget, but no credits had been provided since these investments were to be carried out only in accordance with allotments from ECA funds. The expenditures for these investments appear, therefore, as overdrawing on the estimated state budget for 1950.

e) Scope of the tasks of the Austrian banks in fulfilling the Marshall Plan. Financing of Marshall Plan deliveries.

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In the technical execution of the Marshall Plan the Austrian banks have a very important role. They are obliged, in the first place, to give advice on the financial feasibility of individual transactions before the applications of Austrian importers are presented for endorsement to the Federal Chancellory-ERP-Central Bureau, Vienna (Bundeskanzleramt-ERP-Zentralbüro, Wien). Moreover, they are in charge of opening letters of credit for single transactions which are covered by letters of commitment. They cash the schilling counterpart on the basis of documents which have been sent to and cleared by New York banks and notify the Federal Chancellory-ERP-Central Bureau on the carrying out of single transactions.

The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the Nationalbank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that these larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 The financing of credits for investments
652 (Aufbaukredite) is likewise provided by different
453 types of drafts (three-months validity) until such
time as definite solutions (consolidation) will be
[454] possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 With the activation of the multilateral
● 457 balance within the frameworkof the European Payments
Union after October 1, 1950, some changes took place
652 in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

explained, come from ERP countries and comprise such 439
goods as were, up to this date, to a considerable ex-
tent under indirect aid and were refinanced previously 652
by the Nationalbank. There were special lists for all 457
goods in question.

The cashing of these drafts takes place under the same conditions which apply to imports of semimanufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP 652
funds are used only to finance investments which serve
to balance payments in the shortest possible time, that 454
is, investments which: 1) bring in foreign currencies 457
(by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries.

When hostilities ceased in 1945, most of the 433
industrial enterprises showed great impairment. This 727
was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc.

here is an increase of the total imports to 6366- 439
llion schillings in 1949. In the structure of im-
orts coal and foodstuffs formed a relatively im-
rtant part in 1948 and 1949. The imports of pri-
ry foodstuffs (such as bread grains, flour, fats,
gar, meat, livestock and leguminous plants) were
l per cent of the 1937 figure in 1947 and increased
113 per cent and 122 per cent in 1948 and 1949,
spectively.

The high demand of the Austrian industry
r coal (especially hard coal, blast furnace coke
d coke) could only be covered by sufficient coal
ports since the demand is far higher than in the
ewar period. The volume of coal imports was 69 per
nt and 88 per cent more in 1948 and 1949, respective-
, than in 1937. Although the continuing extension
electric energy may allow lower coal imports, the
oportion of coal imports to the total imports will
main higher than the prewar level due to structural
anges of the Austrian industry. The import of food-
uffs and coal constituted in part a handicap to the
port of raw materials. Of the total raw material
ported (excluding coal) in 1937, similar imports
ached only 25 per cent in 1947, 64 per cent in 1948
d 85 per cent in 1949, in which year total imports
ceeded the prewar level.

Austrian industry in this period, therefore, [433]
s supplied with foreign raw materials to a lower
tent than in 1937. That it was able to exceed pre-
r production despite this condition is mainly due
the favorable development of industries producing
oduction means (based on domestic iron ore pro-
ction). Moreover, foreign raw materials, aided by
e investment program, could be replaced in part by
mestic products (such as rayon staples). The ex-
ordinary high quota of the import of finished goods
n be explained by the high demand for invesment
ods in the country itself, which could be covered
y partly in domestic production.

The structure of imports is regionally very 439
fferent from that of the prewar era. Whereas in 457
37 the state regulation of foreign currencies, fixed
tas and clearing agreements formed an elastic system
ch was capable of using the cheapest sources of im-
ts, in the first years after the war imports were
rced into quite different direction by intensified bi-
eralism (which has been relaxed since by increasing

439 liberalization and by the European Payments Union)
451 and by special conditions attached to foreign aid, by differentiated currency rates and by subsidies for imports. In 1937 only 6 per cent of all imported goods came from the USA, but in 1949 this figure was 29 per cent. In the same period imports from eastern and southeastern Europe was reduced from 40 per cent (in 1937) to 18 per cent (in 1949). As the high import quota from the USA could be maintained only as long as American aid was forthcoming because of the dollar shortage, Austria has to face the very difficult task of transferring import areas for necessary foodstuffs and in part for raw materials also, in the next few years. She must turn to regions which not only are able to deliver but also ready to take Austrian goods in exchange.

If we compare the statistics for imports and the direct ERP aid of the year 1949 (amounting to 6366 million schillings) to the exports (amounting to 3229 million schillings), an import surplus of about 3137 million schillings results (according to the former exchange rate it would be 299 million dollars). Including the import of relief gifts (Liebesgaben) and surplus goods the deficit of the commercial balance increases to 309 million dollars, or 52 per cent of total imports. Out of the total deficit mentioned (3137 million schillings) 734.9 million schillings go to imports from Europe (ERP countries), 304.9 million schillings to imports from non-ERP countries, about 181.8 million schillings to imports from overseas areas of the ERP countries and the sterling-bloc. The bulk (1915.2 million schillings) goes to the USA and Latin America.

The transfer of the center of imports to the USA is a clear consequence of the high aid from foreign countries. The significance of these figures is: the reconstruction of the Austrian economy, a reasonable standard-of-living and a high level of employment, aims which Austria must attain after 1952 by itself (that is to say, by higher exports and increased productivity).

This struggle is the more important as Austria still lags behind in terms of the overall development of European trade. Whereas the volume of all European countries, including Germany, already reached 73 per cent and 87 per cent of the prewar level in the years 1948 and 1949, respectively, the level in Austria was 52 per cent and 70 per cent in the same two years.

(271 million schillings), cotton goods (204 million schillings), fireproof bricks (200 million schillings) and glassware (201 million schillings). 439

The total index of import prices in 1950 was 627, that of export prices 531 on the basis of 1937 = 100. The corresponding figures for 1949 were 407 and 387. The increase of prices for import goods, therefore, were on an average far higher than was the case with exports (54 per cent as against 37 per cent).

A comparison of the commercial imports with exports for 1950 shows an unfavorable balance of 576 million schillings (as against a balance of 1.2 billion schillings in 1949). Including gratis deliveries within the scope of the ERP, the deficit, however, increases to 2.7 billion schillings (in the previous year the deficit of the total exchange of goods was 3.7 billion schillings). The deficit in the exchange of goods with foreign countries was covered in the first half of 1950 by drawing rights and in the second half of 1950 by using up the Austrian credits at the Bank for International Payments after the agreements with the European Payments Union had gone through.

Further betterment of the Austrian economy is intended through the following. The Export Advancement Law (Ausfuhrförderungsgesetz) provides granting medium and long-term credits up to a limit of 500 million schillings under state guarantee. [Up to March 23, 1951, the Nationalbank received applications for credits totaling 174.5 million schillings; 79 million schillings of which represented refinancing. As the state guarantee comprises only 80 per cent of the export credit, 77.6 million schillings (80 per cent of the 97 million schillings) were tied up on the key-date in accordance with the Exporterförderungsgesetz, i.e., 15 1/2 per cent of the maximum of 500 million schillings.] The Austrian Export Funds A. G. (Oesterreichische Exportfonds A.G.) will support exports of craft goods to hard currency countries through credits. They will start with 25 million schillings. [The first interim balance of the corporation shows credits amounting to 16.4 million schillings, i.e., about two-thirds of the export funds (25 million schillings) at the end of March, 1951.] On October 5, 1950, an agreement was reached for simplification of exchange rates together with measures for

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457 raising the productivity of the whole economy.
652 Toward the end of the year a change in the problems concerning the whole economy could be observed owing to increasing tension in the balance of foreign currency and payments.

B. The Austrian Contribution to Freer Intra-European Trade.

439 Although exports increased in the last few
years, they could not, as the preceding figures have
652 shown, cover the total imports in 1950. The dif-
457 ference was covered again through foreign aid (ERP
grants) and through credits, as was the case in
earlier years. Thanks to foreign aid, which financed
the biggest part of the imports of foodstuff, raw
material and coal, the Austrian economy had a total
import which, by 1949, exceeded the prewar level in
volume and covered the demand of imports most urgent
for reconstruction purposes.

In spite of this fact, the balancing of foreign currencies, with regard to the United States as well as to most other countries, could not be attained by means of market transactions. In contrast to the progressive relaxation of state controls in the domestic economy, the demand for imports had to be limited by import licenses and allotments of foreign currencies to the amount available for the import of goods. Regulations and procedures of this control of the foreign trade were determined by the law of Foreign Trade Traffic (Aussenhandelsverkehrsgesetz). (This law was amended in April 1951 owing to special developments caused by the necessary laws of economic policy.) The partial lifting of intra-European trade barriers [hereafter referred to as "liberalization" by the author] started in the fall of 1949, brought problems of trade policy and of foreign currencies.

In September 1949, the council of OEEC (Organization European Economic Cooperation), in Paris, decided to liberalize 50 per cent of the foreign trade between the European ERP countries in order to create a simplified economic area. Austria agreed with the principle. But it had to be very careful in abolishing import restrictions in view of developments in its balance of foreign currencies, otherwise the balance aims would have been endangered. Thus, for

liberalized goods, a number of administrative simplifi- 439
cations in the import precedures were created (ex- 652
clusion of the obligations for a license by the "Aus- 457
senhandelskommission"). The import of these goods is dependent upon the momentary availability of foreign currency. Austria's special situation was also recognized by the OEEC, Paris, which agreed that the measures taken corresponded to the actual situation. In spite of this, Austria made a reasonable contribution toward the integration of the whole European trade policy as proof of its goodwill. For example, in the foodstuff sector, goods with an import value of 10.5 million dollars, i.e., 32 per cent of the commercial imports from ERP countries, were liberalized in October 1950. In liberalization the emphasis lies with the raw material sector, in which 45.5 million dollars (or 84 per cent of the imports from ERP countries) were liberalized. With regard to the accentuated investment policy, moreover, a number of items of the finished goods category were freed from import restrictions. In volume the liberalization represents goods amounting to almost 86 million dollars, i.e., a liberalization of 60 per cent of the imports from ERP countries.

From the standpoint of the economic policy, liberalization measures are characterized as follows: in the foodstuffs category, 70 per cent of those foodstuffs used for human consumption were liberalized, whereas agricultural products or those which are produced in sufficient quantities in the country itself were excluded from liberalization.

Furthermore, to increase the productivity of agriculture, almost 100 per cent of fertilizers and chemical products for agricultural use were liberalized. The very important fuels were freed from import licenses up to 80 per cent and iron alloys almost up to 100 per cent. In the same way, almost 100 per cent liberalization was made for non-iron metals and concentrates and raw alloys therefrom, as well as the important demand for raw materials by the textile industry, which cannot be supplied from the country itself (80 per cent).

A high quota of liberalization is shown in the category of finished goods, especially of chemical finished products (with about 70 per cent) and of synthetic fibers (with about 90 per cent). With regard to the extensive demand for investments, machine tools for metal production were liberalized up to 90 per cent and the demand of various industries by more than 75 per cent.

439 457 652 In order to make the liberalization fully effective it is necessary to abolish foreign currency restrictions for goods which have been liberalized and that is where the difficulties arise. Although the Initial Position in the value of 80 million dollars granted within the scope of the European Payments Union supports this effort through a relaxation in the foreign currency situation, it did not effect a general solution of these problems. The so-called dollar problem still exists in a very real sense.

[648] The European Payments Union, of which Austria is a full member, was put into force on July 1, 1950. It is the logical continuation to the reorganization of the European Payments system, started by the OEEC with the "off-shore" and drawing rights system. Above all, it was to further the lifting of trade barriers between the ERP countries and to carry out the principle of non-discrimination, the equal treatment of all parties within ERP Europe.

These measures, however, did not solve the precarious dollar problem for the ERP countries and Austria since it was not the aim of the European Payments Union to promote European exports to the USA and other hard currency countries outside the ERP. Also the currencies of the EPU countries are interconvertible but not against the dollar. For Europe, therefore, the dollar remained a very rare and hard-to-obtain currency.

A certain relaxation was caused by the new developments in the second half of 1950. The relaxation of the dollar shortage was not caused by the combination of the individual elements: the European Payments Union, liberalization and integration. Rather, due to external causes, it was a consequence of world economic changes which, owing to the conflict in the Far East, opened new markets of peacetime demands to those countries not directly involved in defense measures. (The dollar shortage is essentially a special structural problem of world economy, the causes of which go far back into the war years and are above all connected with the loss of southeastern Asia and the establishment of synthetic production processes in the United States.)

A change in the general aims of economic policy had also taken place because of the European Payments Union. While in the first phase of economic planning by the ERP the investment plans were stressed, now the primary target within the scope of the European Payments Union was the currency system. The ERP was not only a preliminary stage to the free exchange rates between the currencies of ERP countries and the dollar, but it was also to help prepare the possibility for the functioning of international currency funds on the broadest scale. As far as Austria could fulfill these tasks it made a contribution to the whole European currency order by the simplification of its exchange rate system and the fixation of the existing exchange rate of 21.36 schillings to one U. S. dollar for all traffic in goods. (This regulation of October 5, 1950, has been mentioned previously.) 457 652

In the meantime, alterations in the structure of world trade in the early part of 1950 (shortages on the raw material market, increases in prices)caused a change in the commercial policy toward the whole problem. Thus, the discussion of a number of special tasks and principles became necessary (this was also true for Austria). Up to this time the center of gravity in trade policy always lay with the exports, but this shifted to imports considerably toward the end of the year. Comparing quantities became more or less unimportant; the question of "what" in exchange of goods became more important than the question of "how much." The problem now is: what type of goods should be exported and which imports are desirable to make these exports possible? Can the domestic economy, under the given conditions, do without those export goods and does it receive instead of them such goods as it really needs? Or, will the domestic economy lose, by export, such materials that it really requires to maintain its own capacity? Perhaps goods will be imported which, although pleasant and useful, are not really necessary. Such are the questions which were the center of all deliverations concerning trade policy toward the end of 1950. 439 652

In the course of this development one can observe elements of retrogression to the compensation system in trade among the nations (or, to be more correct, among the ERP countries) around the end of the year 1950. Although business is carried out in principle in accordance with the clearance system, 439 457 652

439 many a business transaction is again of the barter
457 type. At present these do not lie in the sphere of
652 private business transactions but are at the level of state control. If one bears in mind the whole European trend under the system of liberalization and of the EPU, this is a typical retrogression which tends toward bilateralism instead of multilateralism. No doubt the system of compensation will prevail again since the factual renunciation of multilateralism in favor of the clearing transactions has to face, at the present time, quite different conditions than existed at the time when those changes, disputed as they were, offered the only possible solution.

Certain signs of a crisis in the policy of liberalization constitute a further problem which influences the trade policy of single states in recent developments. Confined at first to only a few states, this crisis engulfed a still larger number of European trade partners toward the end of the year, since a liberalization without guaranteed payment (foreign currencies) does not at all fulfill the aim of increasing trade relations. The payments traffic on the clearing accounts which, in last analysis, reflects the traffic of goods between the participating states shows a debit tendency.

Under these conditions, Austria faces a number of special tasks in trade policy, the solution of which, however, is not Austria's responsibility alone. Above all, the task is to reach agreements in which the Austrian economic potential can be fully utilized and which afford the possibility of adapting to developments rather contrary to the agreement terms. Austria offers its partners goods (such as timber, magnesite, steel and iron) which are needed all over the world. At the same time, there must be readiness to accept finished goods for deliveries of these vital goods. Problems of prices and of competition (aside from the increase of productivity in the total economy) must be solved in a way which diminish the disadvantages of the non-elastic clearing traffic without producing, on the other hand, unbearable consequences in the policy toward foreign currencies. It must be the most important task of the Austrian trade policy to secure the import of such goods as Austria needs to maintain full employment and, thereby, social stability

C. Tourist Traffic

Along with the increased economic consolidation, there has been a rising development of the tourist traffic, which is of great importance to the Austrian payments and foreign currency balance. The number of overnight guests increased from 10.9 million in 1949 to 14.09 million (an increase of 29 per cent) in 1950. The upward trend started immediately after the exchange rates were altered in November 1949, and concerns primarily foreign visitors. There were 4.58 million foreign overnight guests in 1950 alone, an increase of 155 per cent as compared with the preceding year. This, however, is only 70 per cent of the 1937 level. Among the countries from which most foreign guests came were Italy, Great Britain and Switzerland, in that order. 457

Foreign currencies derived from these services amounted to 15.05 million dollars (391.3 million schillings) in 1950. In the scope of the payment balance this corresponds approximately to the expenses for freight and transportation or, in other words, to 10 per cent of the whole deficit from foreign trade. In 1937, the influx of foreign currencies from this source amounted to 41.2 million dollars or 220 million schillings (i.e., at the present dollar exchange rate, 80 million dollars). The present income in foreign currencies, therefore, corresponds in purchasing power to only 20 per cent of the prewar income from the same source. To support the tourist traffic (modernization and extension of hotels, resorts, etc.) 280 million schillings from counterpart funds are being provided in the investment program 1950-52. Of this amount 28.8 per cent (109.3 million schillings) have been allocated during 1950.

D. Balance of Payments and the "Gross National Product."

According to calculations of the Oesterreichisches Institut für Wirtschaftsforschung, the Austrian "gross national product" amounted to 30.0 and 36.8 billion schillings in 1948 and 1949, respectively. Figures are not available for 1950. Compared to the price level of 1937, the gross national product for 1948 is 7.7 billion schillings and for 1949, 8.6 billion schillings, as compared with 6.5 billion 434

434 schillings in 1937. Although this increase from
1948 to 1949 was caused mainly by changes in prices,
the fact remains that the gross national product
increased in 1948 by 15 per cent and in 1949 by
another 12 per cent. Thus, the prewar level was
[433] approximated. The increase of capacity and at the
same time the increase of the gross national product
in the years 1948-50 is due to the rise in productivity
of the whole economy. However, further increase
will be even more difficult because the
utilization of capacities and of available labor reserves
will advance. Although industrial production
had reached a level in 1947 equal to 56 per cent of
the 1937 level (in 1949 119 per cent and in 1950
140 per cent of the prewar volume), the productivity
increased in the same period from 47 per cent to 79
per cent (in 1949) and 90 per cent (in 1950). Therefore,
it still lags behind the prewar period. The
same holds true for agriculture; the total production
(agricultural and livestock production on
the basis of 1937) reached only 55 per cent of the
1937 level in the year 1947, 80 per cent in 1949 and
approximately 84 per cent in 1950, but the productivity
reached only 90 per cent.

Remarkable progress was attained as com-
[439] pared to the years 1945-46. By its own efforts and
with the help of foreign aid Austria could satisfy
the urgent demand for imports and the volume of imports
was increased above the prewar level. The exports,
however, lagged behind as measured by the quantum-index.
The same holds true for the balance of services. On
the basis of economic data the balance of payments of
Austria in 1950 is presented in the following table.

Explanatory notes to table:

457 a. Quoted in dollars due to change in exchange rate.
b. Calculated in dollars for 1949 and 1950 by the Oesterreichische Statistisches Zentralamt.
c. Other services.
d. Up to June 1950 including drawing rights.
e. Among them aid deliveries in form of credits; no decision has been made about the obligation for repayment.
f. Net payment of drawing rights up to the end of June 1950, and Initial Position payments since July 1950.
g. Provisional figure.

5: Heissenberger S-4, 5 (no date) 1953 EK1 Austria EK1

The Austrian Balance of Payments 1948-1950

(In millions of U.S. Dollars)[a]

	1948	1949	1950
EXPENDITURES			
I. Imports			
Commercial goods imports (incl. ERP and indirect aid) [b]	211.45	397.29	360.33[g]
ERP deliveries (direct aid)[b]	94.30	194.20	118.88[g]
Private organization charity and relief	19.60	9.34	4.10
Other relief deliveries	162.55	0.99	0.11
Electric current	1.90	1.90	0.60
TOTAL	489.80	603.72	484,02
II. Services and Interest			
Freight and Transportation	c	9.29	15.72
Tourist Traffic	2.10	2.61	3.63
Post and Communications	0.25	0.35	0.45
Diplomatic Service	1.40	1.70	1.58
Insurance	c	0.37	0.25
Other services	2.05	6.16	6.37
Interests	0.20	0.58	0.53
TOTAL	6.00	21.06	28.53
III. Refunds for foreign credits	8.00	7.50	6.93
IV. Net changes of short-term foreign loans and obligations	19.40	11.05	30.27[g]
Unexplained difference	6.63	--	39.74[g]
TOTAL EXPENDITURES	529.83	643.33	589.49[g]
INCOME			
I. Exports			
Export of goods[b, d]	198.30	285.86	326.10
Electric current	8.60	5.67	6.18
TOTAL	206.90	291.53	332.28
II. Services and Interest			
Freight and Transportation	c	10.01	6.94
Tourist Traffic	0.80	3.48	15.05
Post and Communications	0.65	1.05	0.80
Diplomatic Service	c	0.37	1.36
Insurance	c	0.05	0.08
Other services	20.23	22.82	21.91
Interest	--	--	--
TOTAL	21.68	37.78	46.14
III. Claims to foreign credits[e]	21.50	12.70	4.88
IV. Financing of deficits by aid deliveries			
ERP (direct aid)	94.30	194.20	118.88[g]
ERP (indirect aid)[f]	3.30	95.57	83.10
Private organization relief and charity	19.60	9.34	4.10
Other aid deliveries	162.55	0.99	0.11
TOTAL	279.75	300.10	206.19
Unexplained difference	--	1.22	--
TOTAL INCOME	529.83	643.33	589.49[g]

000 in the course of the last decade, by which a number of areas formerly at the disposal of the western hemisphere were totally or in part lost (such as Malaya, Indonesia, China, Iran, etc.). By these changes the balance of payments was adversely affected also. Thus, even the dollar problem which has become so urgent today is nothing more than the result of a development that had started during World War II by the loss of the eastern Asiatic area for raw materials and the forced transfer of natural production of a number of items to synthetic production, especially in the United States.

The reactions which came from the markets for raw materials in the first half of the year produced, as a consequence, an inflation of the total European price and wage level. In the second half of the year these tendencies weakened and lost much of their original impetus, with the sinking of the price level. It is a fact that the business activities of the western hemisphere toward the end of the year were no longer overshadowed by the concern over an immediate shortage of goods, which had characterized the development of the international economy after the outbreak of the Korean conflict.

Since the middle of 1951 a certain decrease in the demands was observable on the consumer goods market in the leading countries; this was considered a salutary relaxation after hoard buying. Towards the end of the year, however, buyers exercised more restraint as they no longer expected any considerable increases in prices. On the other hand, certain impulses again took on a more serious character stemming from increasing public expenditures and structural changes of certain balances of payment.

The international development as sketched in rough outline here could not help but have an impact upon Austria.

457 The forces working in the world market and influencing the structure of the Austrian economy[1] (especially the price discrepancy between import and export prices) led in the beginning of the year to a difference between the trade and foreign currency balance, thus to an increasing tension in the balance of payments. (This was the case regardless of apparent shortages in important raw materials and in spite of a relatively favorable trade balance, considerable income from foreign currencies, and the direct and indirect

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[1] [Cf. category 116, pp. 92-94--Analyst]

aid which was granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950, to June 30, 1951--8.81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position, This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18.2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted: 652 [439]

1. The law concerning the creation of an economic directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government; it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy. 656

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically; [433]

435 655 [651] 3. The tariffs of the public corporations (Federal Railway, Posts, Tramways) as well as the prices for current were increased[1] from 20 per cent to 100 per cent to keep pace with the prices on the world market which had increased due to increases in cost (especially the price of coal); the trend toward a deficit in the Federal Railway and public service enterprises had to be checked. In spite of these considerable increases, these price rises were only three to five times as high as the level of 1937.

[465] 4. On the basis of the newly calculated producer and import tax prices, new retailer prices were worked out; to balance this rise every receiver of gross wages received an additional income of from 10 per cent to 12 per cent per month, but at least a minimum of 140 schillings. For persons in the public service, special measures were taken on the ground of the so-called "Gehaltsüberleitungsgesetz."

[651] 5. Finally, in immediate connection with this agreement a number of taxes and duties were altered: progression of the taxes on wages and incomes; a change in the rates of the mineral tax; a change in the contributions of the employers to the balance funds for charitable relief; a change in the turnover-tax; on the grounds of the law of adjustment of social insurance of 1951, the basis of the maximum contributions to social security were changes.[2]

[648] [654] The most remarkable progress within the scope of this agreement, however, was (as already mentioned) the reduction of subsidies. As is known, the individual ERP countries obligated themselves in the bilateral economic agreements (Austrian agreement, August 2, 1948) toward the USA to pay the full value of the American relief deliveries in the currency of the recipient country on a special account (counterpart accounts). These accounts should be disposed of by the individual governments in accordance with the approval of the ECA to cover, as a rule, the financing of productive investments and to support currencies. The utilization of these means for financing for consumer goods should be limited as far as possible, although this had been tolerated in the beginning to raise the general standard of living. The purpose of this limitation was not to prolong the dependence upon foreign aid which was to end toward the end of June 1952.

457 652 With regard to the necessary balancing of the balance of payments (the special measures to achieve

[1] [i.e., in July, 1951. Cf. cat. 116, p. 97, for rationale--Analyst]

[2] [sic., --Analyst]

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these aims will be discussed later), which becomes more and more urgent because of the decrease in ERP funds, means from counterpart funds for investment aims had to be released to an increasing degree. 457 652

The Austrian government declared, therefore, its readiness as early as the fourth price and wage agreement to abolish all ERP subsidies for imports. In the interest of keeping living costs at the lower level, also, certain quantities of vital goods were provided at lower prices in 1951. Besides fertilizers and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides. 652 435 439 654

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agreements as a whole, a clear success had been scored in the prevention of further increases of subsidies, in the improvement of real income of public servants. 652 434

452 652 the Austrian Nationalbank) an increase of the total amount of credit extended from 10,677.2 million schillings (December 31, 1950) to 15,226.5 million schillings (in the end of December 1951).

The total volume of credit comprised in the single categories of credit is:

	Dec. 31, 1950	Dec. 31, 1951
	(in millions of schillings)	
Credits for raw materials[a]	702.0	804.6
Other commercial credits	7,707.6	10,347.6
Reconstruction credits[b]	2,267.6	4,074.4
TOTAL	10,677.2	15,226.6

[453] a) These are credits which are to finance the import of semi-manufactures (in the first place, raw materials). Promises of refinancing are given by the [457] Nationalbank and by credit institutions which have to guarantee them along with the Nationalbank. They come from direct and indirect ERP aid for carrying out of deliveries.

b) These are check-credits serving the financing of ERP investments out of ECA releases. They are guaranteed by the government according to the law of March 30, 1949 (BGBl.101/49) and by the promise of refinancing by the Nationalbank.

Listed below are the total credits according to their use as of September 30, 1951 (a later listing is not yet available).

	In Millions of Schillings		
Total credit volume	14,415	=	100.0 per cent
Commercial credits	10,908	=	75.7 per cent
ERP credits	3,507	=	24.3 per cent
From these: Industry and Mining	3,500	=	99.8 per cent
Small business	7	=	0.2 per cent

The commercial credits are listed as follows:

Industry and mining	4,342	30.1 per cent
Trade	2,894	19.3 per cent
Small business	934	6.5 per cent
Agriculture	759	5.3 per cent
Länder and municipalities	623	4.3 per cent
Other credit purposes	978	7.6 per cent
Reconstruction of dwellings	378	2.6 per cent

The development of Savings and Checking Accounts is shown in the following table:

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	December 1950		November 1951	
	(in millions of schillings)			
Grand Total:				
Savings Accounts	2,198.1		2,320.0	
Checking Accounts	7,271.1	9,469.2	8,817.6	11,137.6
Break-down:				
Joint-Stock Banks				
Savings Accounts	484.5		537.2	
Checking Accounts	4,056.3	4,540.8	4,993.1	5,530.3
Bankers				
Savings Accounts	17.5		23.3	
Checking Accounts	250.9	268.4	207.0	230.3
Savings Offices				
Savings Accounts	965.3		954.7	
Checking Accounts	1,091.7	2,057.0	1,365.9	2,320.6
Credit Associations				
Savings Accounts	488.8		542.6	
Checking Accounts	386.4	875.2	466.6	1,009.2
Other Credit Institutions				
Savings Accounts	242.0		262.2	
Checking Accounts	1,485.8	1,727.8	1,785.0	2,047.2
		9,469.2		11,137.6

[452]

Since the beginning of the Marshall Plan up to November 30, 1951, an amount of 12,280.1 million schillings was deposited in the special fund as a schillings equivalent of ERP aid deliveries (U.S. laws 84, 389, 470 and 472). From this amount, 750 million schillings were released for monetary purposes, 6.875 million schillings for financing the industrial investment program, 54.9 million schillings for other purposes, and 679.4 million schillings for the 5 per cent quota reserved for the U.S.--a total of 8,284.3 million schillings. On the key-date an amount of 3,995.8 million schillings remained for further purposes. (These figures do not include the United States aid transactions in the amount of 478.2 million schillings for the period from July 1, 1947, to December 31, 1947, the latter amount referring to purchases.)

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D. Balance of Payments, Production, Investment.

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The problem is to carry out economic aims within the framework of inter-state coordination and the solving of certain intra-economic problems (problems of structure and priority). This is a specific Austrian task which must be attained by an increase in the transfer of production, by the rise of productivity, by an alteration of the structure of employment and foreign trade. The latter is a problem of international cooperation and of easing tensions in world politics.

Austria was dependent upon close international cooperation and international help from the start. This was due, for example, to the economic and political burdens such as the loss of a considerable capacity of production, which constituted a heavy drain upon the newly reestablished independent status of Austria achieved in 1945; new currency and credit policy foundations; the creation of an industry adapted to changed world economic conditions, which could be achieved only over a long period and only with the help of foreign aid. The situation of Austria is essentially different from that of western European countries which, at least after the outbreak of the Korean conflict, suffered only one-sidedly by the dollar shortage. Their balance of payments against countries with soft currencies were, on the average, favorable.

The following table shows the development of the Austrian balance of payments during recent years.

	1947[a]	1948	1949	1950[b]
	(In millions of schillings)			
A. Current Expenditures				
Import of Goods	312.0	489.8	603.7	481.6
Invisible Expenditures	4.3	6.0	21.1	28.5
Total	316.3	495.8	624.8	510.1
B. Current Income				
Import of Goods	90.7	206.9	291.5	335.0
Invisible Income	19.8	21.7	37.8	46.1
Total	110.5	228.6	329.3	381.1
C. Deficit of the Current Balance of Payments	205.8	267.2	295.5	129.0
D. Increase in Deposits of Foreign Currency	7.3	19.4	11.1	30.3
E. Debt Liquidation	--	8.0	7.5	6.9
F. Statistical Correction	† 6.0	† 6.7	- 1.3	†45.5
G. Import of Capital, including Aid Deliveries	219.1	301.3	312.8	211.7

a) According to estimates of the International Monetary Fund.
b) 1948, 1949 and 1950: According to reports of the Board of Directors of the Austrian Nationalbank.

In spite of the initial difficulties and in spite of the impossibility of taking up the threads of development as they were before 1937 (attention is called to fundamental changes in the political, economic and social structure of central and south-eastern Europe), Austria was able to hold to a level which secured inner stability and an equilibrium in external relations. With the help of foreign aid granted in the last few years, Austria was thus able to achieve, among other things, a balance of payments.

Since 1946, when the gross national product 434 available for consumption and investments (goods and services) had sunk to almost half the prewar amount, 433 the gross national product and productivity has been doubled in the last few years. By 1950, the prewar level was exceeded by 10 per cent. In the same period industrial production increased two-and-a-half times and the volume of the total agricultural production increased by approximately one-half. A relatively high

433 investment rate as well as an increase of the general
434 level of consumption was made possible by this extension of the gross national product.

In 1951, the gross national product (according to provisional calculations and estimations of the Oesterreichische Institut für Wirtschaftsforschung) increased by about 7 per cent in spite of production bottlenecks. This figure, however, is slightly lower than in 1950 (10 per cent), but still higher than could be expected in a normal economy. This increase was almost exclusively due to the industrial production which, owing to the 10 per cent rise in productivity, could produce 14 per cent more goods than in 1950. In this way reactions on the level of prices could be neutralized in some ways
[457] through the greater quantity of goods. However, as the exchange conditions in Austrian foreign trade deteriorated by 10 per cent, and as the increase in prices on the world market lowered the real value of foreign aid by one-third, the Austrian economy in 1951 had only about 4 per cent more goods and services (i.e., about 2.3 billion schillings) for consumption and investments at its disposal than in 1950. Tourist traffic showed an increase of about 20 per cent more overnight guests in 1950-51 than in the preceding season, but the remaining sectors of economy, especially agriculture, showed only slight progress.

434 In the previous six years, especially since
454 1948, a far greater part of the gross national product was invested than before the war. In 1937 only about 6 per cent of the available gross national product was used for investments. The percentage increased from 17 per cent in 1948 to 20 per cent in 1950. As a comparison, the annual average in Great Britain is about 18 per cent. In 1951 the increase of the gross national product invested reached its highest extent, about 21 per cent. The greater part of these investments was carried out within the scope of the public budget or through special funds (for instance, reconstruction fund for dwelling units) and out of ERP funds. (In 1951 about 3.7 billion schillings flowed in from the purchase of ERP goods upon counterpart accounts). The high level of the investment rate, however, was only possible with foreign aid. It will be one of the main considerations of the Austrian economic policy to keep to or divert an adequately high rate after the end of the Marshall Plan. In this connection the adjustment between the investment rate and the monetary stability as well as the distribution of investments between

industries of production goods and consumer goods, will gain top importance. 434 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. The aim was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). The decisive factor for the selection of investments was the degree of contribution to the balancing of payments within the shortest time possible. This had to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts. [457] 652 454 457

Development of the most important economic fields is on the average satisfactory. One has to consider, however, that the full results of investment projects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of 433 327

Industrial Production Index - Comparison of Averages for October (monthly average 1937 = 100)

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	1951	1950	1949
Total Index of Production	180.3	145.4	122.8
Production Goods	230.7	178.6	151.6
Consumption Goods	138.8	117.3	98.3
Total Index of Productivity	105.7	91.8	82.1

Although agriculture and forestry showed some results production was lagging behind due to many soil-improvement measures which were neglected during the war. It remained behind the prewar level. Further investments are now being made in this field. Considerable increase can be seen in the traffic capacity of the Federal Railways. The extension of electrification, modernization of traffic installations, of rolling stock, and of railway stations are among the projects. [811] [497]

Tourist traffic is of special importance to achieving balance of payments. Tourist traffic was one of the most important foreign currency earners before 1937. In 1948-49, 31.6 per cent of the number of overnight guests for 1937 was reached. This proportion rose to 70.4 per cent in 1949-50 and to 74.3 per cent in the winter season of 1950-51. However, the income from foreign tourist traffic lagged behind that of the prewar period. It amounted to 15.1 million dollars in 1950. With regard to its purchasing power, it reached one-fifth of the 1937 level. In this field also investments for modernization and extension of enterprises are continuing. The aim is to reach a reasonable balance between investments and incomes from foreign currencies. Similarly motivated is the aim of opening areas of the country which might be very important for tourist traffic by building new roads and means of transport, such as cable cars and ski-lifts. In the investment program for 1950-52 net investments of 960 million schillings are provided for this sector alone. 457 [529]

The main vehicle for the balancing of payments is foreign trade.

E. Foreign Trade.

439 457 Austria's foreign trade was naturally effected by the outbreak of the Korean crisis. In the beginning it caused considerable increases for Austrian exports. In the following period, however, import prices rose above export prices creating a discrepancy between the trade balance and the balance of foreign currencies in the spring of the year. A number of legal regulations were necessary. Intensification of Austrian foreign trade, therefore, becomes one of the most important economic-political assignments in connection with the end of the Marshall Plan. (See Monatsberichte for January 1952: "Ausfuhrsteigerung-erstes wirtschaftspolitisches Gebot." Compare especially what is said about the abolishing of the quota, which will not be changed, and about the material supports to raise the export trade, especially the extension of exchange business.)

[648] In the last quarter of the year, a committee of the EPU in Paris was discussing this problem which is of paramount importance to Austria. It stressed the urgent need for further developments in this sector since Austria shows a permanent deficit account in its clearing with the EPU. This deficit reached an amount of 5.4 and 5.5 million dollars in October and November, respectively, while foreign aid in an amount of approximately 8 million dollars was allocated for these two months. The balance must be supplied by the Nationalbank out of its own reserves.

457 648 439 By means of trade agreements Austria endeavors to extend the scope of its obligations to the European area as well as to overseas areas. (In the following, explanations are based on: "Die Handels- und Zahlungsabkommen Oesterreichs" by Dr. Helmuth Boller, chief of the Trade Policy Section of the Bundeskammer der gewerblichen Wirtschaft, Vienna.) Certain progress could be reached. Thus, the lack of trade agreements with the Iberian peninsula could be corrected by the conclusion of a commercial agreement with Portugal. Toward Spain there are only feelers of a trade and political character. Indonesia joined the ranks of overseas agreement partners. New trade agreements were reached with Belgium, Luxembourg, the Netherlands, and Poland to replace former agreements which had expired. Trade agreements were renewed with Argentina, Brazil, Denmark, West Germany, France, Italy, Yugoslavia, Norway, Rumania, Sweden, Czechoslovakia and Hungary in 1951. As a rule, the formation of the goods

traffic on the basis of hitherto valid agreements were revised and new goods lists for the future worked out. The new agreements are, in general, valid for only one year. Additional payment agreements could be reached with Belgium, Luxembourg, Brazil, the Netherlands, Poland, and Portugal at the same time the commercial negotiations were concluded. (At present there are twenty-three payment agreements.) Payment agreements not connected with commercial agreements now exist with Great Britain, Canada, and Uruguay, and commercial agreements without corresponding payment agreement with India, Ireland, Indonesia, and Pakistan.

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If one groups the concluded commercial agreements according to basic common features, one can see that an extensive adjustment of the regulations to the decisions of the OEEC and the EPU took place in the so-called OEEC countries in 1951. Basically, the principle of Liberalization was stressed in all bilateral commercial agreements with OEEC countries in accord with obligations which result from membership in the OEEC and EPU. The lists drawn up are restricted to goods not covered by the general liberalization.

The paramount importance problems about the supply of raw materials caused a remarkable shift toward fixed promises for deliveries. In many cases the partners not only worked out lists for the import of non-liberalized goods but they added additional lists creating fixed promises for the allocation of export licenses in the form of delivery contingents. Austria uses agreements of this kind in its trade with West Germany, France, Italy, the Netherlands, and Portugal. All these agreements with OEEC countries also have in common the basic renunciation of the principle of compensation and its replacement by the so-called "clearing agreement." In 1951 even the last agreement based on bartering had to cede to this principle. The trade agreement with the Netherlands of December 13, 1947, which represents the type of mixed agreement, was replaced by a new trade agreement of February 5, 1951, which actually adopted the standards of those clearing agreements which were reached with other OEEC countries.

The renewed agreements (not in the framework of OEEC and partly only prolonged former agreements) with Bulgaria, Poland, Rumania, and Czechoslovakia do not show essential changes as compared with the preceding year. On the grounds of merely bilateral basis, the

457 balancing of the bilateral trade balance sometimes
648 causes considerable trouble. The trade agreement
with Yugoslavia was considerably extended by a credit
439 for goods to the amount of 10 million dollars which
Austria granted to that country; the goods have been almost totally delivered. The goods credit, starting with the year 1952, must be balanced by Yugoslavian counter-deliveries. The new discussions about a trade agreement with Yugoslavia were begun on January 7, 1952.

Among the overseas agreements, those with Argentina and Brazil contain very interesting new elements with regard to the techniques of agreements. Thus, for instance, the listing of the items of Austria's exports to Argentina is extremely detailed. One is certain that the establishment of a permanent Mixed Commission with its seat in Buenos Aires will be a success. It is the Commission's task to control observance of the agreement and the development of the goods traffic. In the agreement with Brazil the new method of balancing payments is most interesting because it deviates from the usual scheme. The establishment of annual accounts for the balancing is most remakable. At the end of the year in which the agreement operates, the amounts will be balanced and replaced by a new annual account for the following period of the agreement. It is equally remarkable for the regulation that a payment of a credit account will be demanded only to the extent in which import licenses actually were issued by the competent authorities after ordinary application procedures.

In the first months of the coming year further agreements with Brazil, Bulgaria, Denmark, Greece, the Netherlands, Norway, Pakistan, and Sweden are to be concluded. Existing agreements are to be renewed or prolonged.

457 The achievement of the balance of payments
is the aim to which all endeavors of the economic
652 policy must be subordinated. As explained in the foregoing, these endeavors contain those measures which are to restrict the inflationary development. The craft segment of the economy under the direction of the Bundeskammer der gewerblichen Wirtschaft started various measures of material and psychological importance toward the end of 1951. Among these measures was price reduction (see Monatsberichte for November 1951 (No. 31): "Die ökonomische Bedeutung der Preissenkungsaktion").

The same aim is to be reached by an increase of the production with regard to quantities, by the balance between the production-goods and consumer-goods industries and by regard to necessities arising out of the export policy. In this connection, not only problems of an increase in productivity were discussed, but also fixed legally-based calculation principles (Eröffnungsbilanzen) were created which make it possible to strike an unassailable balance and to tax sham profits. 652 457 ●

F. Liquidation of Marshall Plan Aid and Future Planning.

The Marshall Plan is drawing to an end; it expires, according to the Foreign Aid Law of 1948, at the end of June 1952. That the American Marshall Plan administration, the ECA in Washington, has ceased functioning and the Mutual Security Administration started its activities as of January 1, 1952, do not alter the basic principles of Austria's economic policy (see Monatsberichte for January 1952: "Vom Marshallplan zum Mutual Security Agency"). [648] 652 457

This is a fast-moving age in which we live. People almost forget that at the bottom of such a complicated program of procedures as the ERP allocations, of the releases from the counterpart funds, from the direct and indirect aid, from the drawing rights, and from the EPU, there was a relatively simple, but nonetheless, grand idea which aimed at the economic and social reconstruction of the war-torn European continent and the cooperation of the European countries in a free and comprehensive European market. Out of the 13 billion dollars supplied in the Reconstruction Program by the American taxpayer for Europe, Austria got 1 billion dollars for the purchase of bread and fodder grains, cotton, oil, and fats, for payment of overseas freight, for the extension and rationalization of its mining and industrial plants, for carrying out the enormous power-plants, for the reconstruction of its traffic network, and for its recreational and tourist traffic establishments. These dollar means, which were represented also in the counterpart accounts, served immediately or mediately in connection with aid deliveries to supplement investments and necessities in various enterprises.

V. TRANSITION PERIOD (First Half of 1952)

A. The General Picture.

With the end of the Marshall Plan in the middle of this year, the 17 European ERP countries (among them Austria) will have to face a number of rather difficult decisions in the realm of economic policy. If one totals up the grants of aid which Austria got within the scope of the Economic Cooperation Act of 1949, and of the Foreign Aid Law of April 3, 1948, in the course of the last four years under the title of direct and indirect aid, and under the EPU, the allocated dollar means and goods and services altogether amount to 833 million dollars. Allocations for the single years were:

1948-49 - 270 million dollars
1949-50 - 253 million dollars
1950-51 - 190 million dollars
1951-52 - 120 million dollars

In the schilling balance, the inflowing counter-value to the ERP aid deliveries amounted (in counterpart funds) to 13,243 million schillings with the key-date of February 29, 1952 (according to the statistics of the Austrian Nationalbank). (The principles contained in the agreement and the technical procedures of carrying out these aid programs are quoted in the "bilateral agreement" between the USA and Austria on July 2, 1948.) Out of this amount 775.0 million shillings were used for monetary purposes, 7,275.0 million schillings for financing the Austrian investment programs and 682.3 million schillings for other economic expenditures. The above-mentioned grand total does not contain the counter-value of 478.2 million schillings which was granted in the period from July 1, 1947, to December 31, 1947, under U.S. Relief appropriations (UNRRA, congressional interim funds); they also do not contain such credits as the pound-sterling credit, Export-Import Bank credits, surplus credits and War Assets credits, etc.

The conditions and developments described in the preceding sections for the year 1951 were the result of these financial aids, together with legal and organizational provisions made since 1945 and the attitude of the Austrian people. It should not be forgotten that the economic level of Austria was far lower than that of the other ERP countries. Therefore, in

652 457 restoring Austria's living conditions a number of problems had to be faced which could not be mastered by the country alone. Moreover, an economically smaller country which is about to change the whole economic structure is more sensitive toward the trends on the world market. Its economic and political possibilities are more restricted than those of big continental powers.

The above-mentioned elements, as well as the thoroughgoing changes which have taken place in the traditional pattern of Austria's trade with southeastern Europe, must be borne in mind when judging Austria's total economic situation.

652 Austria used all possibilities under the ERP as intensively as possible. It has replaced its war damages to a great extent. It has rebuilt its industrial and agricultural production within the limits of given conditions. It has again reestablished connections with European and overseas partners and restored the functional capacity of its money and credit system. Hindrances to these developments were: losses in substance, structural time-limited transfers, existing political encumbrances, and, not least, the recent impact of world economic conditions (Far East crisis). These are the reasons that the aims which were generally set forth by the ERP could not all be realized within the time provided in the program. This is a fate which Austria has in common with other ERP countries to varying degrees.

The problems which Austria has to face after the end of the Marshall Plan are the same in all other ERP countries. Although the capacity and the means may be very different, to restrict the loss of the gross national product in a socially bearable way is the main task. Now the top problem becomes the maintenance of a workable and humane order of economy and society. Various factors will play a role, among them are: a synthesis between captivity and freedom, regard for law and natural development, the cooperation of all political and social forces, the cooperation of individual markets within the framework of sound competition and real prices and the like.

000 No specific social and economic order is autonomous; it is only a part of a great network from which it receives specific impulses and on which it

B. Developments in the Field of Trade and Payments.

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If one considers conditions when the laws of economic policy were issued in the spring of 1951, one will see that the discrepancy between the sharply increasing prices of imports and the lagging prices for exports led to a discrepancy between trade balances and currency balances. This was the case despite shortages of the most important raw materials and in spite of a relatively favorable trade balance. In view of this, not only the direct aid was used up in a shorter time, but the "Initial Position" supplied by the EPU was exhausted to a far greater extent in the counter-value of 80 millions. The deficit eventually was covered by additional funds for direct aid in the amount of 18.2 million dollars from EPU and a sum of 10 million dollars from the "Special Resources" of the ECA, awarded in view of the special conditions of Austria. To an extent it was also covered out of the limited reserves of the Austrian Nationalbank.

The later decline of the prices of raw materials made the reduction process slower. This was the case especially with finished goods because of the natural alterations concerned with the various stages of the program. A number of these goods not only reached the maximum prices in the world market, but also the amount in the following period. The total development is reflected in the table of the balance of payment. The figures for 1949 and 1950 are used for comparison.[1]

[Cf. category 116, pp. 132-133 -- Analyst]

● 457

5: Heisenberger S-4.5 (no date) 1953

EKI Austria EKI

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BALANCE OF PAYMENTS OF AUSTRIA FOR 1951 (Final)*

--A Comparison of 1950 and 1949--

(In Millions of U.S. Dollars[1])

	1951 (Quarters)				1951	1950	1949
	Fourth	Third	Second	First			
EXPENDITURES							
I. Imports							
Commercial Imports of Goods (incl. ERP, indirect aid)	146.78	126.08	131.68	120.56	525.10	357.30	397.29
ERP Deliveries (direct aid)	28.55	34.10	38.40	26.58	127.63	119.48	194.20
Private Charity Deliveries	0.60	0.60	0.60	0.60	2.40	4.10	9.34
Other Deliveries	---	---	---	---	---	0.11	0.99
Supply of Current	---	---	---	0.00	0.00	0.61	1.90
TOTAL	175.93	160.78	170.68	147.74	655.13	481.60	603.72
II. Services and Interest							
Freight and Transport	7.93	7.39	3.95	4.17	23.44	15.72	9.29
Tourist Traffic	1.34	2.29	1.35	0.98	5.96	3.63	2.61
Posts and Communications	0.10	0.08	0.07	0.09	0.34	0.45	0.35
Diplomatic Service	0.25	0.41	0.48	0.33	1.47	1.58	1.70
Insurance	0.11	0.16	0.20	0.18	0.65	0.25	0.37
Other Services	3.03	4.73	3.02	2.08	12.86	6.37	6.16
Interest	0.06	0.11	0.09	0.14	0.40	0.53	0.58
TOTAL	12.82	15.17	9.16	7.97	45.12	28.53	21.06
III. Capital Flow							
Net Alterations of Foreign Credits	1.01	3.56	---	---	4.14	2.05	---
Net Alterations of Short-Term Foreign Accounts & Obligations	0.67	12.69	---	1.36	8.43	30.27	11.05
TOTAL	1.68	16.25	---	1.36	12.57	32.32	11.05
Unexplained Accounts	---	4.47	1.46	22.07	16.75	42.40	---
TOTAL EXPENDITURES	190.43	196.67	181.30	179.14	729.57	584.85	635.83

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INCOME

I. **Exports**							
Export of Goods	124.26	118.59	109.15	96.41	448.41	325.50	285.86
Deliveries of Current	1.46	1.52	1.54	0.89	5.41	6.42	5.67
TOTAL	125.72	120.11	110.69	97.30	453.82	331.92	291.53
II. **Services and Interest**							
Freight and Transport	1.72	1.60	2.97	1.52	7.81	6.94	10.01
Tourist Traffic	2.39	13.79	4.34	3.38	23.90	15.05	3.48
Post and Communications	0.15	0.14	0.21	0.10	0.60	0.80	1.05
Diplomatic Service	0.39	0.34	0.43	0.21	1.37	1.36	0.37
Insurance	0.03	0.04	0.02	0.01	0.10	0.08	0.05
Other Services	11.48	10.75	6.93	6.50	35.66	21.91	22.82
Interest	0.15	0.20	0.19	0.18	0.72	---	---
TOTAL	16.31	26.86	15.09	11.90	70.16	46.14	37.78
III. **Capital Flow**							
Net Alterations in Foreign Credits	---	---	0.23	0.20	---	---	5.20
Net Alterations of Short-Term Foreign Accounts & Obligations	---	---	6.29	---	---	---	---
TOTAL	---	----	6.52	0.20	---	---	5.20
IV. **Financing of Deficits by Aid Deliveries**							
ERP Direct Aid	28.55	34.10	38.40	26.58	127.63	119.48	194.20
ERP Indirect Aid	8.00	15.00	10.00	42.56	75.56	83.10	95.57
Private Charities	0.60	0.60	0.60	0.60	2.40	4.10	9.34
Other Aid Deliveries	---	---	---	---	---	0.11	0.99
TOTAL	37.15	49.70	49.00	69.74	205.59	206.79	300.10
Unexplained Accounts	11.25	---	---	---	---	---	1.22
TOTAL INCOME	190.43	196.67	181.30	179.14	729.57	584.85	635.83

1) With regard to the change of the schilling rate the figures of the balance of payments are given in foreign currency. 2) On the basis of Foreign Trade statistics of the Österreichisches Statistisches Zentralamt.

* The publication of the Austrian balance of payments for 1951 in Vol. II (February 1952), page 105, was based to a large extent upon provisional results. See also the diagram.

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439 457 652 If one examines the structure of these results more closely, one will see immediately that the deficit of the trade balance is by far the biggest burden to the total balance, which is not covered at present by the moderate assets of tourist traffic and the surplus of the transit traffic, plus other receipts from services. This deficit was covered up to the present from ERP funds, which must be replaced in the present year (at least in the second half of the year) by other methods if the import programs are not to be seriously restricted. Any restriction, however, would be most decisive. If reduction of the imports of foodstuffs were undertaken it would result in a grievous lowering of the general standard of living; if one attempts a restriction of raw material imports the plants and factories would have their operation curtailed and partial unemployment would result; if one lowers the import of coal and fuel the general tempo of production will suffer with all the consequences this would have upon the social and economic life of the country.

435 439 It is clear that none of these alternatives would be acceptable since normal development must be to the interest of Austria as well as the whole of Europe. But where is one to find an acceptable solution? An analysis of the figures of foreign trade gives the following picture:

To begin with, the table shows the development of foreign trade in the last two years as compared to the last year before the war. To make the figures of 1937 comparable with those of 1950 and 1951 (which are inflated owing to currency devaluation), the amounts in new schillings were reduced to the previous schillings value by dividing them by the index of wholesale prices (1950: 553 and 1951: 742).

C. Reconstruction Planning.

Reconstruction of the economic policy means 457 a gradual overcoming of the crisis of the balance of payments and the securing of internal and external balance. Such a policy will create conditions which can provide a free convertibility of currencies and the real integration of the single economies. (This is among the aims of the Marshall Plan.) (The EPU is of special value. Due to expire on June 30, 1952, it will be prolonged as an instrument of overcoming crises in the balance of payments which arose as a consequence of the Korean crisis in a number of countries. Without this aid the difficulties could not have been overcome so easily. At present the problem of the quotas, of the brake on money, and of establishing currency rates is an open one, since the current rates no longer correspond to purchasing power.) However, the aim of abolishing the restrictions on foreign currencies and the free convertibility of foreign currencies cannot be achieved within a short time. It will be necessary to establish manipulation funds which serve toward overcoming short-term shifts and creating certain structural correctives.

The maintenance of financial stability as 652 a means of guaranteeing the functioning of a currency is connected with the status of the governmental balance (excluding the calculation of costs in an economy). The frame of figures for the single items (titles, chapters) of the Finance Law (Budget) must be reduced if a surplus of expenditures arises which is not covered by taxes or other possibilities (at present counterpart funds); in this way a balance can be achieved between incomes and expenditures if the foundations of a stable currency are not to be shaken by the budget. If one tries to avoid these conditions, one has to set up a system of savings on the one hand, and to take measures for the reconstruction of a capital market of high capacity, on the other. Like other countries, Austria also will have to endeavor to [454] transfer gradually a big part of its investment demands from bank credits or counterpart credits to the capital market. This development must be considered the soundest form of long-term financing. The neces- 652 sary revision of the investments policy caused by 457 reasons of the total economy has been dealt with in connection with the balancing of the balance of payments. (This is connected with the reduction of

457 652 foreign aid. While in 1951 about 200 million dollars was available, this sum will be approximately 100 million dollars for 1952; the schilling counter value to foreign aid, therefore, will decline from 4.4 billion schillings to presumably 2.1 [435] billion schillings. Moreover, as the prices at the end of 1951 were higher by 12 per cent than the average for 1951, there will be about 2.7 billion schillings less out of foreign aid funds for investments than in 1951.) In addition, the budget is burdened by a number of price supports, the abolition of which will not be possible to a full extent under the present conditions. Immediate reactions on the prices for foodstuffs and new rises in wages would be the consequence. The policy of supporting prices must not be omitted when the system of subsidies is altered. [Since the fifth Wage and Price Agreement of July 1951 the existing method of financing important consumption goods was taken over from counterpart funds by the budget. Thus, there are still considerable budgetary expenditures under this title. They amount per year to about 40 million schillings for the support of domestic bread-grain prices, 366.5 million schillings for foreign bread-grains, 555.75 million schillings for fodder, 110 million schillings for fertilizers and 135 million schillings for raw materials of fats needed by the margarine industry. The term for supporting the prices of domestic bread grains (15 groschen per kilo) already has expired. The remaining subsidies will expire with the end of June. Discussions with the aim of continuing these subsidies are not yet finished. They tend, above all, to stimulate production by adequate prices.]

652 [453] Already in the preceding year the stabilization of the money value was prepared to a considerable extent. Measures of this type were: the introduction of the quantitative and qualitative control of credits; the increase of the bank rate from 3 1/2 [435] per cent to 5 per cent; and the lowering of prices, started by private industry of its own volition--this latter measure applying to about 80 categories of goods. This materially and psychologically important premise of an organic policy for stabilization must be supplemented by an adequate budgetary policy. It cannot be denied that the measures which were taken in the preceding year had already brought about significant results. The savings increased considerably in 454 652 the first two months of the present year; they rose from 2,275.1 million schillings (checking account deposits 8,898.7 million) to 2,619.5 million schillings

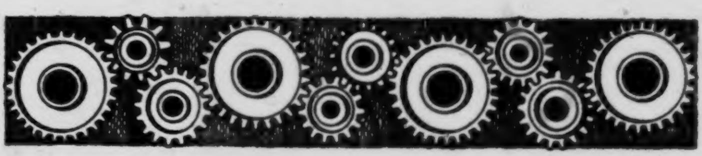
THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted
439 to build up a national economy, to balance its economic structure and to make itself
as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 The nadir of those days was reached with the signing of the Treaty of Saint-
433 Germain, which revealed the full extent of the catastrophe. Austria's tragic path
at that time was blocked by a series of apparently insurmountable obstacles to
458 the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent
never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 After difficult but very skilfully conducted inter-state negotiations, the governments
457 of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the
652 utmost in order to put her finances and trade on a sound footing. The will of the
Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning



point. The banknote printing presses were stopped and national administration 652
put on a firm footing through drastic measures of economy.

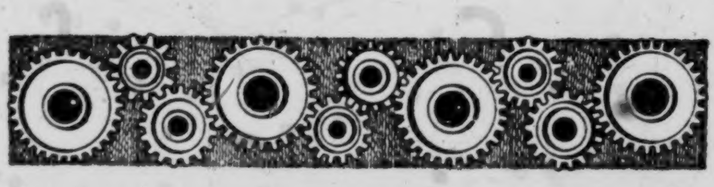
However praiseworthy the efforts which led to a balancing of the budget, the 433
difficulties which still confronted Austrian trade remained considerable. Austria's
productive capacity was far greater than its markets (which had shrunk to an eighth 439
of their former size) could possibly absorb. As a great part of Austrian industry was devoted to manufacture, the country was dependent on the import of foreign raw materials (textile, metal and chemical raw materials, hides, furs etc.) and auxiliary materials (above all coal). On the other hand, the social services (unemployment pay, emergency aid, health insurance etc.) which were more extensive [745]
than in all the other Danube States made the costs of Austrian production comparatively high.

All Austria's efforts were directed towards export. In 1931, 25 per cent of all inland output was exported, 45 per cent of this being industrial production. If one works out the value of goods exported per head of population and compares it with the exports from other countries it will be seen that in 1937 Austria was ahead of Germany, France and the U. S. A., the comparative figures being 39 : 36 : 34 : 28.

As an industrial country, Austria was forced through the ceding of her agricultural surplus territories to rely on the import of foreign foodstuffs. These imports had 457
to be paid for by the export of industrial goods, as had also the raw and auxiliary materials.

According to the balance of payment figures for the year 1934, the exchange of commodities, which amounted to 63 per cent of all listed inter-state payments was the most important item of Austria's inter-state economic transactions. Second in importance were payments under the heading of invisible imports and exports (balance of services), which amounted to 23 per cent of the total payments. Austria made a profit on these transactions of about 200 million schillings. That proportion of the goods imported which could not be covered by exports alone was therefore paid for by services in the strictest sense of the word. Of these services, the tourist trade and transit trade were the most important.

Through the loss of former markets, Austria was forced to form new export connections in the north, south, west and overseas. As the goods which had formerly been 439
exported to the east and south-east were not automatically marketable in these



bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1934 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crises of trade and finance, so that certain grave reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive those troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal

system in foreign trade became the guiding 439
principle, the narrowing down of inter-state 648
trade relations being shortly afterwards still
more strongly emphasized through currency
restrictions and the clearing agreements connected
herewith. The currency devaluations of the 457
gold-standard countries towards the end of the
year 1936 created new difficulties for Austrian 435
foreign trade. As devaluation was out of the
question and an export subsidy was not considered
to be a suitable political-economic instrument, the
only remaining alternative was to lower the
costs of production. The difficulties of such a
course have been proved by practical experience
in all countries, as the questions of fixed prices
and wages combine to form an insurmountable
obstacle to such a development.

Nevertheless Austria still succeeded in linking 458
up with the world boom which began in 1935—
1936. In the year 1937 her figures of production 457
were 6 per cent higher than those of the last
characteristic boom year of 1929. The tourist
trade developed exceptionally favourably, despite
the "1000 mark limit" imposed by Germany,
and the volume of foreign trade was constantly
on the increase.

In view of the heavy burden of debt which 652
the country had to assume after 1918, of the
increasingly protectionist tendencies throughout
the whole of Europe, especially among Austria's
immediate neighbours and considering the
severe and long-continued world trade depression,
as well as the crises of international currency,

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of 8 warehouses, 258 tobacco distributors and 13,253 tobacconists' shops, thus providing a large number of Austrians with a secure livelihood. As the Tabakregie is a valued customer in the tobacco-producing countries compensation transactions are made possible for other home industries through its foreign dealings. Even during the first months of reconstruction (April to December, 1945) the Tabakregie contributed in taxes about 10 per cent of the total state revenues. In 1946 it provided about a third of these revenues (corporation taxes about 30 per cent and customs dues over 40 per cent), despite decreased production. A rise in output will certainly mean a considerable increase in these figures. It must also be mentioned that Tabakregie exports brought in over 55 million schillings in the year 1933, and that they should therefore play an important rôle in stabilising finances as soon as foreign markets are reopened.

The staff of the Tabakregie varies according to available supplies of raw materials and depends on the preferences and satisfaction of the smoker. In the year 1937, the concern employed 5421 workers, including 3912 women, and at the end of 1947, 2930 workers, of whom 1581 were women. The dwindling of the number of workers is only in a minor degree due to the effects of the war. The main reason must be sought for in the decrease in cigar consumption which has been in progress for some time. The smoker of today is turning more and more to the cheaper type of cigarette which is quickly consumed. The cigar is one of the victims of our hustling and mechanical age. Cigar production, which depends mostly on manual labour, is on the decline, while the cigarette, which is produced entirely by machinery, is becoming more popular. This explains the reduced number of employees. It may increase one day again, if people find time in more leisured days to blow heavy smoke rings from fat cigars.

At all events, the Austrian Tobacco Monopoly is doing its best to see that the smoker is well supplied at all times with his needs, which are those of so large a section of the community.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

health. The death-rate soared.½ A large number of people 727 were carried off by the influenza epidemic of 1919. In the same year, the mortality among Viennese schoolchildren was 60 per cent higher than in 1913. Deaths from tuberculosis for young people between the ages of 16 to 21 years rose by 160 per cent.

Outside help was obviously needed if serious famine 727 conditions were to be averted. Private philanthropic organizations, particularly in the United States and Great 457 Britain, at once organized relief measures, and the Netherlands, Scandinavian countries, and Switzerland offered hospitality to Austrian children on a generous scale. But this was merely a drop in the ocean. A problem of this order could not be solved by private charity. The hopes of the Government therefore turned on the Hoover Mission with its considerable command of food supplies. In December, 1918, the Austrian Government succeeded in getting an advance of 4,000 tons of cereals; though in the circumstances this was entirely inadequate. Negotiations were then begun; but in spite of the catastrophic conditions in Vienna they were protracted owing to Austria's inability to procure the required means of payment; and also because Mr. Hoover's food policy was partly used as a means of influencing the internal politics of the destitute countries. In February, 1919, at last, relief credits were granted to Austria to the tune of $24 million from the United States and $16 million from Great Britain, France, and Italy (who in turn borrowed this money from the United States), and from the middle of March onwards, 1,000 tons of foodstuffs were delivered daily. In April this amount was increased to 1,800 tons daily.

The available credits soon proved inadequate and additional relief credits were provided by the same group

½ [In 1918 1919--Analyst]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

457 of countries and also by the neutral states. Altogether,
727 between 1919 and 1921, relief credits to the value of about £27 million were given to Austria, of which £9 million came from Great Britain, the largest single lender. These relief credits were secured by a mortgage, with priority over all other charges, on Austrian State property.

But while the relief of the food situation was the most
433 pressing need, the plight of the industrial sector was no
727 less serious. All coal supplies from Bohemia and Upper Silesia were, at first, cut off. The domestic coal ration was 15 kg. per family per week, and even this was not always available. On the main line from Vienna to Salzburg there was only one slow train per day. It stopped at every station, and its time of arrival was anyone's guess as the breakdown of the old rolling-stock and the lack of coal caused frequent and lengthy hold-ups. Often the travellers had to walk beside the train because the locomotive could not pull the load over a steep hill. Of the blast furnaces in Upper Styria only one could be kept working; and that at a time when there was an enormous need for all basic materials. In fact, practically all important raw materials were in short supply. In consequence production had to be cut down or stopped altogether.
[457] The amount of supplies from abroad was determined by so-called "compensation treaties": barter agreements on a strictly quantitative exchange basis. There were further complications. For instance, until the rolling stock of the old Monarchy was finally divided up among the various "Succession States", all goods had to be unloaded at each frontier station, as no state would allow its waggons to leave their own territory. This tended to raise costs and to cause greater delay, reducing still further the already meagre flow of goods.

It is, therefore, not surprising that in its initial stages

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

the German Steel Trust. We shall see later what ominous 458
political and economic consequences flowed from this 471
transfer of control.

Summing up, it may be said that the years of inflation brought a marked revival in the sphere of production and foreign trade; but that little was accomplished in the way of urgently needed structural adjustment.

One further result of the inflation should be mentioned. 458
In Austria, as elsewhere, the internal National Debt was practically wiped out. 652
No doubt this put a heavy burden on some classes of the population, particularly the small saver. No doubt, the inflation involved a heavier burden of external debt than would otherwise have been the case. But the disappearance of the National Debt undoubtedly relieves a government of some headaches when it comes to the point of drawing up a budget. And to balance the budget was one of the main tasks before the Government if the inflation was to be brought to an end.

THE STABILIZATION OF THE CURRENCY

We have seen that the Austrian Government pinned all 457
its hopes of overcoming the monetary chaos on foreign 652
help. A foreign loan would both help to balance the Government's budget and to stabilize the foreign exchange rate, the barometer of the country's confidence in the Crown.

Negotiations for such a loan had started as early as 1920; but to secure a loan was by no means a simple matter. The allied governments expected to receive reparations from Austria, not to make loans to her. They pointed to the relief credits they had already granted (but which had of course been used up for "unproductive" relief) and were unwilling to make any further advances. Private investors, on the other hand, were unwilling to

• 457 652 lend money to a country which constantly stressed the lack of a sound basis for its economic future. Only first-class guarantees would induce capital to come to Austria. The Austrian Government, therefore, proposed to guarantee such a loan by pledging some of its major sources of revenue (customs, tobacco monopoly, State forests) to its service. Unfortunately, however, all properties and revenues of the Austrian State had already been charged with guaranteeing reparations, occupation costs, and relief credits. Negotiations were therefore begun with a view to securing the agreement of all the states concerned (eighteen in number), to raise their mortgage on Austrian assets. By the time the necessary agreement had been secured—which was not until about a year later—the position had deteriorated to such an extent that the original financial plan was no longer adequate.

Finally the League of Nations decided to step in. In October, 1922, the famous Geneva Protocols were signed. The first Protocol, signed by Great Britain, France, Italy, Czechoslovakia, and Austria, re-affirmed the political and economic independence and territorial integrity of Austria. In the second Protocol the British, French, Italian, and Czechoslovak governments each guaranteed a portion of an Austrian loan of 650 million gold Crowns. In the third Protocol the Austrian Government promised to put its own house in order, to balance its budget, to stop borrowing from the Bank of issue, and to create a new and independant bank of issue, the Austrian National Bank.

The Geneva Protocols had a remarkable effect on the monetary situation. The mere fact that promising negotiations were in progress led to a return of confidence and put a stop to the panic flight from the Crown. The dollar exchange rate reached its highest point in August, 1922, when it stood at 83,600 Crowns. After that there was a

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

slight fall. Retail prices ceased to rise in September, 1922; 457
after that they merely fluctuated in the normal way. The return of confidence in the currency enabled the Government to raise loans from the public once more. 652
Between November, 1922, and January, 1923 (long before the raising of the foreign loans), 80 million gold Crowns were subscribed in domestic loans. In the summer of 1923—after some short-term credits had been granted to Austria—the guaranteed long-term loan was at last launched in the various Allied and neutral countries. The subscription was a complete success. The reorganization of Austria's finances could at last be taken in hand. Careful economy, the cessation of borrowing from the bank of issue, and the increased yield from taxation all helped to reduce the deficit.

In November, 1923, the budget for the first time showed a surplus. The operation had been clearly successful. At that time most of the other European countries, and particularly Germany, were in the throes of inflationary catastrophes which surpassed anything that had happened in Austria. In 1923 and 1924 the Austrian Crown[12][1] was indeed one of the most stable currencies in Europe; a fact which earned it the nickname of the "Alpine dollar". The way was now open for the more fundamental tasks of readjustment and reconstruction. Nevertheless, a more courageous policy might have achieved the same results without the aid of so much foreign borrowing, whose burden could not help but make itself unpleasantly felt at a later stage.

[1] [Cf. Category 11c, p. 35. -- Analyst]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

UNEMPLOYMENT[1]

(000's omitted)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1923	161	167	152	132	107	92	87	83	78	75	79	98
1924	119	125	106	82	68	63	66	74	77	89	113	154

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The situation was aggravated particularly by the shortage 454 of capital for industry. An enormous speculative boom swept the stock exchange in 1923 and early in 1924. 455 Industrial shares which had been neglected in the uncertain period of inflation were now eagerly taken up and funds were increasingly drawn into the financial sphere. Since private saving had fallen to negligible levels the rate of interest charged to industry was excessive. Interest rates on first-class overdrafts reached the absurdly high level of 22 per cent in 1924, and even in 1925 they still stood at 15½ per cent. The cost of credit was also raised by the monopolistic policy of the bank cartel which fixed the rates and left a margin of 7½ to 9½ per cent between rates paid and charged. As Austrian industry was largely owned and controlled by the banks, and also dependent on them for short-term credit, industrial interests were often subordinated to "orthodox" financial considerations.

Some relief was afforded by foreign loans. These were 457 attracted by the high rates of interest and were usually obtainable on more favourable terms. The main drawback on this score was that—apart from loans to local authorities, public utilities and very big firms—it was only short-term credits which were offered, while what was needed at that time were long-term credits for industry. Indeed, once the monetary systems of the central and eastern European states were stabilized the *political* interest in their reconstruction ceased in the Western

1[CP CATEGORY 1/6, PAGE 50 -- ANALYST]

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•457 world, and the field was left open to private investors who failed to appreciate the long-term needs of that area.

433 But in spite of the heavy unemployment, production continued to increase; though there were some setbacks in the capital-goods industries which had benefited most from the inflation. The following figures may serve to illustrate the trends of this period (no general index of production is available for these years):

Production	Unit	1922	1923	1924
Coal, lignite	Thousand tons	3,136	2,659	2,777
Steel	” ”	481	499	370
Paper	Waggons	15,108	15,285	17,211
Wheat	Thousand tons	202	242	231
Rye	” ”	345	402	411
Potatoes	” ”	1,398	1,426	1,647
Sugar	Quintals	244,680	472,555	750,102
Merchandise carried by railway	Thousand tons	—	5,493	6,174

The general rise in production was mainly due to the installation of modern plant during and after the inflation, to the resumption of more careful costing and accounting practices, and to a considerable rise in output per head. By 1925, total output reached about 80 per cent of the pre-war level.[3] 4

464 The overall figures of unemployment conceal, however, the very uneven incidence of unemployment in the various industries: a consequence of the structural changes then taking place. In February, 1925, when unemployment had reached the high level of 193,000, the percentage of unemployed was fairly low in the quickly expanding light and consumer goods industries—8 per cent in the food processing trades, 4 per cent in the paper industry, 6 per

1 [CR. CATEGORY 11b, p. 50--ANALYST]

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trial output was largely due to measures of rationalization rather than to an increase in the numbers employed. On the other hand, the pressure on the labour market continued. Apart from the structural unemployment inherited from war and inflation—the decline of the war industries, the reduction in administrative and banking personnel, the difficulties of the export industry—the process of readjustment still went on, slowly and haphazardly. Bank mergers, numerous liquidations, etc., all created new friction in the labour market. Walter Lippmann once said that it was the foreign policy of the United States not to have a foreign policy. Similarly it might be said of the Austrian Government of that period that its economic policy was to have no economic policy. 464

Not only was there no clear idea about the measures required to bring about the necessary and only half-completed changes as smoothly and as quickly as possible; the Government was also overcautious in its own spending policy. There was some expenditure on railway electrification, on agricultural improvement and on other investment and public work items. But this was altogether inadequate. The memories of the recent inflation, the need to maintain the country's foreign credit, the enormous burden of pensions for the great pre-war administrative machine, all made a balanced budget seem the ultimate goal of state finance. Thus unemployment in Austria was considerable even before the world depression. It remained high in 1925 and 1926, decreased slightly in 1927 and 1928, only to rise again in 1929. During the whole period there were at least 10 to 15 per cent unemployed.

Foreign trade was another source of weakness. With the growth of production in Austria and elsewhere, imports and particularly exports did, it is true, increase steadily. 439 457

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[439]
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AUSTRIA'S FOREIGN TRADE

(in million schillings)

	1926	1927	1928	1929
Imports	2,771·3	3,094·1	3,230·1	3,248·3
Exports	1,706·4	2,040·5	2,202·1	2,169·0

But the adverse balance remained uncomfortably high throughout. The larger part of this deficit—probably 700 to 800 million schillings—was covered from income on the various invisible items mentioned earlier. The remainder is accounted for by foreign borrowing. It has been estimated that between 3,000 and 4,000 million schillings had been borrowed between 1923 and 1930.[8] This would not have mattered greatly in normal world economic conditions, except that a large part of these loans consisted of short-term advances to the banks. A large part of this money was lent to industry on, what was in fact if not in form, long-term conditions. The dangers of a sudden withdrawal of these funds should have been obvious. Moreover it was clearly impossible to continue indefinitely with an import surplus of that size since, in addition to current interest payments, the capital itself would ultimately have had to be repaid.

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But it was not easy to find a solution. Austria's demand for her imports—mainly food and raw materials—was highly inelastic and could not be easily adjusted to changing conditions; while her exports—mainly manufactured goods—were increasingly excluded by the tariff walls that sprang up all over Europe. Slow, and sometimes painful, structural changes did, however, take place which prepared the ground for later improvements.

Reference has already been made to the improvements

1 [Cp category 116, p. 50 -- Analyst]

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453 banks had tended to increase their liabilities in relation to
their own capital; and the high rates of interest had led to
a continuous influx of foreign short-term money which the
banks re-lent for medium- and even long-term purposes.
This could not but render the banking system (in Austria
and elsewhere) highly vulnerable to any sudden outside
shocks.

The shock (or rather several shocks) came with the
453 outbreak of the world depression. First, with the 1929
stock-exchange boom in Wall Street in full swing, the
● 457 inflow of short-term funds (particularly American) which
had been continuous from 1925 onwards came to an abrupt
end. Later, loans were called in so as to satisfy the desire
for liquidity which the depression had everywhere created.
But a large part of this money had been re-lent for purposes of long-term capital-extension and it was now found to be "frozen". Further sums had been invested in the Balkan countries where the catastrophic fall in agricultural prices rendered the service on foreign loans increasingly out of the question. Bad debts accumulated and had to be written off.

The decline in the banks' liquidity was only half the trouble. They also lost much of their own capital. The Austrian banks—and to a lesser degree all Continental banks—had been in the habit of investing a large part of their capital in industry. With the severe decline in industrial production and profits, the banks thus suffered heavy losses on their shareholdings.

All these factors had been quietly at work below the
453 surface of an apparently smoothly working banking
system. Quite suddenly, however, these facts were
brought to light, with all their devastating implications.
On May 11th, 1931, it was announced that the losses of
the Credit-Anstalt had been so severe that it was unable

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453 capital; the country's foreign credit was too closely bound
up with the solvency of this bank. The Government
652 therefore stepped in within four days and, together with
the Austrian National Bank and the House of Rothschild,
assumed responsibility for its financial reconstruction. A
number of measures followed in quick succession. The
government guaranteed first the foreign, and later also the
domestic deposits of the Credit-Anstalt. A committee was
set up in London to represent the interests of foreign
creditors. An agreement was signed providing that 500
million schillings of foreign short-term credits were not
to be withdrawn for two years. Strict economies were
introduced. Salaries and pensions were heavily cut by
453 decree; many of the bank's employees were sacked. The
652 problem of an overgrown banking system was at last
being solved; but in a way which created much misery and
464 dislocation. No doubt, the Credit-Anstalt had somehow
to be saved. But the Government was too concerned
about the profitability of the concern and the interests of
the shareholders. Its measures contributed to the already
serious structural unemployment among the middle
classes and served to prolong the depression. Moreover,
the Government missed an unique opportunity of using
its newly gained influence over the main credit institution
to re-organize and direct the country's industrial structure
in the national interest.

453 But the collapse of the Credit-Anstalt did not only call
for far-reaching measures for the restoration of that
436 institution. It also had grave repercussions on Austria's
652 monetary system. The National Bank had been forced to
re-discount a large number of Credit-Anstalt bills, and
457 the note circulation began to swell. At the same time, in
spite of the Government's speedy assistance and guarantee,
confidence had been shaken and funds were withdrawn

457

from the Credit-Anstalt on a large scale. Particularly 453
foreign short-term credits, which had already trickled outwards ever since 1929, were now called in rapidly. About 436
1,000 million schillings were withdrawn from Austria 652
within a year.

This put a severe strain on the foreign exchange reserves of the National Bank. 457 The stability of the currency, which had rested on a firm basis since the inflation had come to an end, was threatened once again.[6] 7 Support was urgently needed and, for the second time in its short history, the Austrian Republic had to appeal for foreign help. Some welcome, but sadly inadequate, help was rendered in June, 1931, in the shape of a 150 million schillings credit from the Bank of England and 100 million schillings from the Bank for International Settlements. This eased the strain for the moment, but soon there was a renewed decline in foreign exchange reserves. Germany and Hungary suspended their foreign payments. This meant not only a loss of expected income but it also undermined confidence still further and a flight of capital set in which threw the foreign exchange market completely out of gear.

On August 7th, 1931, the Austrian Government asked 652
the League of Nations for a 250 million schillings loan. 457
As in 1922, this loan was ultimately granted. But again the help did not come soon enough. After prolonged negotiations and investigations the Financial Committee of the League of Nations stressed in March, 1932, that the financial strain of Austria, Hungary, Greece, Bulgaria, etc., was mainly due to world causes over which they had very little control, and that there was an urgent need for international financial help. In the summer of 1933, two years after the first appeal, the loan was finally launched.

But in the meantime the position had gone from bad

7[Cf Cadbury [illegible] pp. 63-64.—August]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

652 457 to worse. Action became imperative. The demand for foreign exchange increased steadily and an unofficial premium on foreign currencies developed. On October 9th, 1931, after the foreign exchange reserves of the National Bank had fallen from 856 million schillings on May 7th to 359 million schillings, exchange control was finally introduced to stop any further loss of reserves. The same measure had already been introduced by Germany, Denmark, Hungary, Greece, Czechoslovakia, and Yugoslavia. It soon spread to most of the smaller nations in Europe and South America. Further measures —above all import quotas and clearing agreements— followed for the purpose of husbanding the scarce foreign exchange reserves.

In this way the emergency was temporarily met, the further flight of capital reduced, and the "devisen" resources preserved for essential imports of raw materials and foodstuffs. But exchange control created problems of its own. Prices in Austria had tended to be higher than world prices since mid-1931 so that now, with the value of the schilling artificially maintained, imports were encouraged while exporters found it increasingly difficult to compete in foreign markets. In spite of the controls the reserves of the National Bank therefore continued to decline in 1932, and in June of that year the transfer on foreign debts had to be suspended for almost a year.

The Austrian schilling had to be brought into line with world prices. But the Government was reluctant to devalue the currency for two reasons. First, the Austrian public was still very much "inflation-minded", and considered devaluation as equivalent to inflation. Devaluation might thus raise political difficulties. Secondly, devaluation would raise the burden of the foreign debt.

These considerations, however, lost much of their force

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

as one country after another went off the gold standard 652 and devalued its currency. After a period of strict exchange control, lasting from October, 1931, to the middle 457 of 1932, the Government relaxed some of its regulations. "Private clearing" was admitted, first in a restricted field, from which it quickly expanded until it covered the great majority of Austria's imports and exports. The private clearing system consisted in permitting exporters to sell their foreign exchange directly to importers instead of requiring them to hand it over to the National Bank at the official exchange rate. In these private clearing dealings the schilling was actually devalued and found its equilibrium level so that exporters could once again compete in the world market while importers could obtain the necessary "devisen" without further formalities and delays. This *de facto* devaluation of the schilling was finally officially recognized in April, 1934, when the Austrian National Bank revalued its gold and "devisen" resources at the new parity of the schilling. This revaluation of the reserves corresponded to a 22 per cent devaluation of the schilling.

After that date Austria returned to a practically free foreign exchange market,[7] and the stability of the schilling was once again secured. This was a remarkable achievement at a time when most of the other countries in central and eastern Europe travelled in the opposite direction, viz. towards more exchange control and a greater isolation of their economies from the world market. Austria's withdrawal from all but rudimentary exchange control was indeed, as an American economist said, "a unique chapter in monetary history".[8]1

Its importance lay not only in preserving Austria's 652 position as a centre for transit trade and commercial and 439 financial services; above all, it rescued Austria's foreign

1/A [Cf p. 64 : CATEGORY 116--ANALYST]

in the past although it was excellently suited to Austria's 234
natural conditions. In spite of increased home consumption an export surplus was now achieved for the first 439
time.

EXCESS OF IMPORTS (−) OR EXCESS OF EXPORTS (+)
(in quintals)

	1923	1936
Milk	− 200,000	+ 114,000
Butter	− 16,000	+ 35,000
Cheese	− 43,000	+ 31,000
Condensed milk	− 80,000	+ 300

In foreign trade, too, considerable advances were made. 439
Foreign trade did not, it is true, recover to the same extent
as production. Even in 1937 Austrian imports, amounting 457
to approximately 1,500 million schillings, were only 45 per cent of the 1929 value, while exports in the same year (approximately 1,200 million schillings) were only 55 per cent of the 1929 value. Moreover, the recovery of Austria's foreign trade was less marked than elsewhere, and Austria's share in world trade fell from 1·12 per cent in 1929 to 0·93 per cent in 1937.

The volume of foreign trade, therefore, did not increase as much as was desirable. But the balance of trade became much more favourable than it had ever been. When, after 1933, foreign trade began to revive, exports increased to a greater extent than imports. In spite of the growing volume of trade, the import surplus therefore remained at a low level. For the period 1933–7 it amounted to about 320 million schillings per year, as compared with more than 1,000 million schillings in the years before 1930.

Moreover, the gap of 300 million schillings or so was 457
easily covered by Austria's income from various other sources, and it was now no longer necessary to raise foreign loans on that account. Income from tourist

● 457 traffic, in particular, had greatly increased in importance since the beginning of the thirties. Austria's great potentialities in this sphere were now much more fully used than in the past. The hospitality and the cosmopolitan outlook of the population; the increased facilities for cheap accommodation and the cheap railway fares; the Salzburg festivals, the Grossglockner Alpine Road, the International Congresses in Vienna; all these attracted a large and increasing number of foreigners to Austria. Between May and August, 1936, 500,000 foreigners visited the country; a third more than in 1935; and it has been estimated that the revenue from this source alone amounted to 300 million schillings in 1936.[1]

Alongside this improvement in the balance of trade there was a general change for the better in Austria's foreign debt position. When, in 1933, the League of Nations finally floated the Austrian Government Guaranteed Loan, the bulk of its yield was used for repaying the most pressing short-term debts and to clear up some arrears which had accumulated after the crash of the Credit-Anstalt. These and some further minor funding transactions reduced Austria's short-term indebtedness from about 1,290 million schillings in 1932 to the negligible figure of 47 million schillings in 1937. Thus the old standing danger to the stability of the currency of a large foreign short-term debt was removed.

Moreover, in the same period, the total amount of foreign indebtedness (whether long-term or short-term) was considerably reduced. Repayment of part of the capital, and above all the devaluation of the dollar, franc, and other currencies, reduced Austria's total foreign indebtedness by more than one half: from approximately 4,250 million schillings in 1932 to 1,880 million schillings in 1937. This, as well as the successful conversion of the

[1] [CD CATEGORY 11b, p.77--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

RECOVERY

1932 League of Nations Loan to lower interest rates, greatly eased the burden of Austria's foreign debt service. Interest payments fell from 282 million schillings in 1932 to 110 million schillings in 1937. 457

The improved position in the spheres of foreign trade and foreign indebtedness, and the reorganization of banking after the fall of the Credit-Anstalt,[2] put Austria's finances on a thoroughly sound basis. The gold and foreign exchange reserves of the National Bank recovered to a comfortable level. This enabled the Government to do away with most of the exchange control introduced at the height of the crisis; and the value of the schilling was successfully maintained when, in 1936, three of Austria's neighbours—Italy, Switzerland, and Czechoslovakia—devalued their currency.[3] For the second time in her short history Austria had emerged successfully from a very difficult financial position. Confidence in her stability was restored, and in 1937 Austria was in the unique position among all the European debtor nations of obtaining short-term commercial credits on the London market.[4] There can hardly be any doubt that Austria could have solved her problems without any further foreign assistance had she been able to maintain her national independence. 652

Altogether, then, it may be said that Austria had passed through a period of sound, if stormy, development in the twenty years of her existence. Many improvements were still required, many mistakes remained to be made good. Nevertheless, Austria had reached economic standards which compared very favourably with those of most other countries in central and eastern Europe. Her economic structure was much more similar to that of the Western industrial nations, though her standard of living fell greatly short of, say, British standards. To illustrate 511 434

1[cf CATEGORY 11b, p 77--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EKl Austria EKl

439 was no exception and it is in this field that particularly
652 grave mistakes were made in the period under review.

As early as 1931, when Austria was still a democracy, a
641 dangerous and harmful attempt was made in the inter-
439 national field to solve the growing economic difficulties. Dr. Schober, a member of the small Pan-German group in Parliament and Foreign Minister in the Coalition Government of the day, entered into secret negotiations with Dr. Curtius, the German Foreign Minister. On March 19th, 1931, the world was suddenly informed of the intention of the two governments to form a customs union. The plan found instant and wholehearted support in Germany. In Austria there was no enthusiasm about it outside the ranks of the Pan-Germans, and many Austrian industrialists were gravely disturbed by the prospect of falling completely under German control. But it was mainly in France and Czechoslovakia that the full implications of this Pan-German move were immediately grasped. Only a few days after the scheme was announced, on March 26th, Dr. Beneš, the Foreign Minister of Czechoslovakia, explained to the members of the Foreign Affairs Committee that the customs union project raised the question of the *Anschluss* indirectly as a customs union between unequal parties was certain to destroy the independence of the weaker.

Fortunately the project did not materialize. The
457 growing financial difficulties of Austria and the need for
648 foreign help, which Germany was neither able nor willing to provide, induced the Austrian Government to give up the plan for a customs union. A few days later, on September 5th, the Permanent Court of International Justice decided by a narrow majority—eight votes to seven—that a customs union would be incompatible with Austria's obligations under the Geneva Protocols.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

promises of Fascist Italy,* and, in 1934 signed the Rome Protocols. This was an agreement signed by Italy, Austria and Hungary providing for a preferential trade régime for these countries. Hungary was to find improved outlets for her agricultural exports while Austria and Italy would obtain preferential treatment for their industrial products. Behind all this, however, loomed Italy's attempt to obtain a dominant position in central Europe. 648 439

The economic results of the Rome Protocols were anything but satisfactory as far as Austria was concerned. There was no great expansion of trade with Hungary. Exports to Italy increased quickly, it is true, particularly after the outbreak of the Abyssinian war and the imposition of sanctions in which Austria failed to join. Italy moved from fourth to second place on Austria's export list. In 1936, 14 per cent of Austria's exports went to Italy, as compared with 10 per cent (out of a much smaller total) in 1932. But Italy was neither able nor particularly willing to pay for these exports. Austria's export surplus to Italy amounted to no less than 70 million schillings in 1936 and 93 million schillings in 1937. Thus Austria, herself in sore need of capital investment in her industry, was compelled to make loans to Italy. The same applied to a slighter extent to Germany, where the clearing agreement also led to the accumulation of a credit balance in Austria's favour.[11] 1/1

It was not until 1936, when Italy's incapacity to pay became obvious and when the Italian Government tried to change the terms of the agreement in its favour, that an effort was made to re-direct Austria's trade. A preferential treaty was concluded with Czechoslovakia, in spite of severe opposition from Germany. Other attempts for 457 439

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* Instead of helping Austria, Mussolini, in the event, congratulated Hitler on his successful annexation of the country.

1/1 [Cf. CATEGORY 11b, F. 78 -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

457 freeing trade from the straight-jacket of bilateral clearing agreements followed. This was partly successful; exports 459 to "free payment" countries increased from 32 per cent of total exports in 1929 to 36 per cent in 1937. But this was a rather poor showing compared with Czechoslovakia, where the share of exports to free-exchange countries increased from 36 per cent to 52 per cent in the same period. There was no time for obtaining any better results for on March 11th, 1938, German troops crossed the Austrian frontier.

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CHAPTER VI

THE SHADOW OF GERMANY

ECONOMIC PENETRATION

AFTER the annexation of 11th March, 1938, Austria's 648
economy became completely subordinated to Germany's war requirements and to the German prepara- 457
tions for a "New Order" in Europe. But it must not be assumed that Austria's economy had ever been able to develop freely and without interference from its powerful neighbour. Indeed, to understand fully the economic and political events in Austria the long-standing and baneful German influence must be constantly borne in mind.

Long before the last war German imperialism exerted a powerful influence on Austria's economic policy. After the creation of the German Reich in 1870 German industry grew at a rapid pace and Germany became the leading economic power in Europe. She soon took third place, after Britain and France, as a foreign investor. After a short period of all round lending in response to purely economic incentives, the loan policy of the German banks and industrial concerns was increasingly brought into line with wider political aims.[1] The *Drang nach dem Osten*, a prime feature in Germany's expansionist designs since the days of Bismark, came to determine the direction of her capital export. Large sums were invested in the Near East, in the Balkans and particularly in the Austro-Hungarian Empire. German investments in the Empire totalled RM. 3,000 million in 1913, more than the value of British and French investments taken together. There

[1] [Cf. CATEGORY 11B, P. 91 -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

648 was also much direct participation in the Empire's industry and banking.

457 In those days free economic relations were still the rule. But Germany's lending policy was quickly used to help carve out political and economic spheres of influence. Loans were frequently granted only on condition that their proceeds should be spent on German products.[2] By this means, the big German concerns obtained a dominant influence in these areas and trade was often diverted from its natural channels. Not less than 40 per cent of Austro-Hungary's foreign trade thus came to depend on Germany. The economic penetration of the Monarchy contributed greatly to its conversion into a junior partner in Germany's foreign policy and into a willing tool in the First World War.

As a result of that war Germany lost most of her foreign investments and eventually became herself largely dependent on foreign capital. Consequently, she was no longer of any importance as a source of capital supply for Austria and in foreign trade, too, she lost her predominant position, accounting for no more than about one-sixth of Austria's foreign trade.

But Germany did not therefore abandon her attempts at economic penetration in Austria. If anything, her efforts in that direction were greatly increased to compensate at least in part for the areas and opportunities lost in the war. The aim remained the same, though the methods were changed.

648 While Germany ceased to make loans to Austria she continued to maintain a close grip through her shares in 471 Austrian companies. The total amount of these holdings was moderate but they were of major strategic significance. German concerns had managed to obtain full or partial control over important firms in most of Austria's

[CA CATEGORY 116, P 91 — ANALYST]

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648 327 471 The Alpine had been the offspring of a merger of many small companies in the days of the Monarchy. After the war the majority of shares was acquired by the Government, but in 1919—during the most critical period—they were sold to a group of Italian financiers. From there, in 1921, they passed into the hands of the notorious German inflation profiteer, Hugo Stinnes. When his meteoric rise came to a sudden end the majority of shares (56 per cent) were acquired, in 1926, by a member of the German Steel Cartel, the Vereinigte Stahlwerke of Duesseldorf, a combine headed by the Nazi promoter Fritz Thyssen.

From then on this most important combine in Austria's heavy industry was run exclusively in the interests of the German Steel Trust. All the important positions and research facilities were reserved for adherents of "Pan-German" convictions. The workers were forced to leave
467 their free trade unions and to join the *Heimwehr*, an armed, anti-democratic body, whose Styrian branch was heavily subsidized by the Alpine Montan. As early as 1931, the Styrian *Heimwehr* organized an unsuccessful *coup d'état* against the Austrian Government. A number of directors of the Alpine Montan were behind this *putsch*. They were again involved, and actually arrested for a short time, when the Nazis made an abortive *putsch* in July, 1934, in the course of which Chancellor Dollfuss was murdered.

648 327 457 On the outbreak of the great economic depression the German steel magnates decided to concentrate production in Germany. All Austrian blast furnaces were closed down and the industrial districts of Styria were thus converted into one of the worst-depressed areas in Europe. After Hitler's rise to power, the Alpine was completely harnessed to the German armament programme, regardless of Austria's political or economic needs. In 1937, when

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Austria was in great need of "free currency", the Alpine 648
refused orders from England and other countries, and sent 327
its whole output to Germany, in spite of the clearing
debts which had accumulated there. Ultimately the behaviour 459
of the directors became so hard to distinguish
from high treason that the Austrian Government put a
Government Commissioner in charge of the firm. But it
was too late. A few weeks later the policy which the
directors of the Alpine had backed all along was fulfilled—
Austria was occupied by Germany.

Direct ownership and control were not the only means 648
by which the Germans exerted their influence in the
economic affairs of Austria. Recent investigations by the 471
American Anti-Trust Division have shown how, over a 477
long period, German combines used international cartels
in order to increase Germany's economic war potential.[3] 1
If powerful monopolistic concerns in Britain and the ^
United States could be induced to act against the interests
of their own nation it is clear that the Germans had much
easier play as far as Austria was concerned.

Cartelization was a widespread feature of Austria's industrial structure. The wide ramifications of industrial investments of the major banks greatly smoothed the way for trade agreements, mergers, etc. Many of these cartels worked in close agreement with their German counterparts. Owing to their much greater financial strength the German firms had the decisive say in directing cartel policy. In their desire for high and safe profits the Austrian cartel members not only damaged consumers through their restrictionist policies; they also betrayed the economic and political interests of their country in favour of Germany.

These direct economic influences were supplemented 648
by other, more subtle, methods. From the day of the 668

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728 Germany which had swallowed up one of their important
648 customers and suppliers—Austria had up till then
439 occupied the third or fourth place in the foreign trade of
most of these countries. Politically and economically
Germany had become the complete master of the whole
area.

471 For Austria, of course, the occupation meant far more
than a dangerous shift in Europe's economic balance. Her
648 economy ceased to exist as a separate entity; within a very
655 short time it was completely absorbed into Germany's war
economy and her "New Order".[5] [1]

The Germans were able at once to lay their hands on all Austrian State property. The railways were incorporated into the German railway system, the State forests taken over by the German State. The State monopoly in salt was given to the Deutsche Bank, and the tobacco monopoly taken over by a private German company. Far more important, however, were the shares of the Credit-Anstalt which were owned, at that time, by the Austrian Government. After the reorganization of the Credit-Anstalt in 1931, 49 per cent of its shares were taken over by the Government. These, together with some others, were now transferred to the Deutsche Bank. Since at the same time the only other important bank, [1] the Zentraleuropäische Länderbank, came under the control of the Dresdner Bank, practically the whole of Austria's banking and insurance business had passed into German hands.

471 It must be borne in mind, in this connection, that the
Central-European banks held a key position in the
453 industrial life of their countries. It has been estimated
457 that the Credit-Anstalt controlled almost 90 per cent
of Austria's industry and agriculture. Moreover, the
Austrian banks and financial institutions still possessed
considerable investments in the Balkan countries, particu-

[1] [Cf. p. 91, Category 116 -- Analyst]

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larly in banking, and in the textile, chemical, and food- 471
processing industries.[7][1] All these controlling positions now
passed into the hands of the German banks. Vienna 453
became Germany's launching ramp for south-eastern 457
Europe, and Austrian economic quislings greatly helped
the Germans to advance their economic penetration of
the Balkans.

But the indirect control of Austrian industry through 648
the banking system was only a first step. Within a very
short space of time all the more important Austrian firms 471
passed either partly or wholly into German hands. This 728
was achieved either by methods of outright robbery, as in
the case of "aryanization" (the confiscation of Jewish
property), or by exploiting the financial difficulties in
which many firms had been landed as a result of the occupation and incorporation of Austria; or through a skilful
handling of the financial control which had been gained in
the first instance. In this way all important industrial
enterprises were absorbed into the big German combines
like the I.G.-Farben, Krupp, Henschel, Vereinigte
Industrie—A.G., and particularly the Hermann-Goering
Works, which acquired the control of the largest part of
Austria's heavy and allied industries.[8][1] Altogether, it has
been estimated, a share capital of about 380 to 400 million
schillings (of industrial, commercial, and banking firms)
passed into German hands. This compares with a sum
of about 710 million schillings which was the total value
of all shares admitted for quotation on the Vienna Stock
Exchange in August, 1938.[9][1]

While the big Austrian firms were being subjected to
German control a process of decline took place among the 471
smaller firms. Many small business men were ruined by
the policies of rationalization, concentration, and above
all by the extension of war production at the cost of the

1 [Cf CATEGORY 11b. p. 91-92 -- ANALYST]